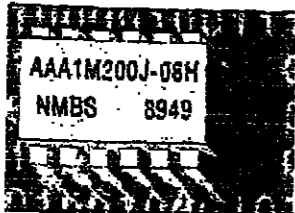


FINANCIAL TIMES



Semiconductors

Who really stands for free trade?

Page 6



Innovation

Brussels approach blocks biotech

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Saint-Gobain

Still not a conglomerate

Page 19



Japan's economy

Leading an east Asian flock

Martin Wolf, Page 14

Britain

THE ROGUE PIECE IN EUROPE'S JIGSAW

In a six-page report in tomorrow's paper, FT writers take the temperature of modern Britain and examine the issues behind its current conflict with its European partners



NatWest poised for US expansion with \$600m purchase

National Westminster Bank is expected today to announce a \$600m acquisition in the US designed to further the UK clearing bank's ambitions to develop a leading international securities business. NatWest is acquiring Greenwich Capital Markets, a Connecticut-based broker, from Long-Term Credit Bank of Japan. Greenwich will give NatWest a presence in the trading of US government bonds and related derivatives.

BA and American to seal link: British Airways and American Airlines are expected today to announce their long-awaited alliance amid strong opposition from rival carriers. Page 17

Debis may sell marketing arms: InterServices (Debis), services arm of the Daimler-Benz industrial group, is considering the sale of its Frankfurt-based marketing and advertising subsidiary. Page 17

Slight fall in German jobs: Unemployment in Germany fell by just under 150,000 last month, but a smaller-than-expected seasonally adjusted decline showed there is as yet no easing of the country's employment crisis. Page 16; German tax cuts luxury car sales 9.5%. Page 2

De Benedetti to appeal against jail term: Carlo De Benedetti (left), chairman and chief executive of Italian information technology group Olivetti, is to appeal against the 4-year jail sentence handed down yesterday for his role in the collapse of Banco Ambrosiano 14 years ago. The sentence will be suspended awaiting the appeal, which may not begin for a year. Mr De Benedetti was briefly deputy chairman of Banco Ambrosiano. Page 3

China may partner Airbus: Airbus Industrie is to use its latest involvement in the development of a 100-seat Chinese jet to seek to persuade China to become a partner in the European consortium's planned "super jumbo". Page 6

Japanese store chief may quit: The president of Takashimaya, Japan's largest and oldest department store, may resign over allegations that the company paid racketeers not to disrupt shareholders' meetings. Page 16

Paris denies welfare deficit threat: The French government said its plans for European monetary union, tax restraint and welfare reform would not be affected by a forecast that the social security deficit will rise to FF49.5bn (\$9.45bn) in 1996, triple the government's target. Page 3

Japan's surplus falls: Japan's current account surplus in April was down 45 per cent on a year earlier, according to preliminary data from the finance ministry, but the pace of decline is expected to ease. Page 4; Japan looks to Asia. Page 14

Former World Service chief attacks BBC: John Tusa, former managing director of the BBC World Service, attacked top management at the public service corporation for a restructuring he called the "biggest act of bureaucratic vandalism against the World Service". Page 8

Fujitsu delays Oregon start-ups: Fujitsu, one of Japan's leading semiconductor manufacturers, is postponing the start of production at a \$1bn factory in Oregon by about six months because of a sharp slump in prices for memory chips. Page 17; Lex. Page 16

BHS considers expansion: The Bank for International Settlements may invite fast-growing countries in Asia and Latin America to join its ranks. Page 5

Draw for Scotland: Scotland drew 0-0 with The Netherlands in their first group match in the Euro 96 football championships, at Villa Park, Birmingham. Page 5

STOCK MARKET INDICES

New York S&P 500 5,673.01 (+18.1)
NASDAQ Composite 1,250.68 (+0.92)
Europe and Far East
CAC40 2,120.84 (+18.85)
DAX 2,950.81 (+1.38)
FTSE 100 3,728.75 (+22.18)
Nikkei 21,719.15 (+32.56)

US LIGHTHOUSE RATES

Federal Funds 5.1%
3-mth Treas. Bills Yld 5.267%
Long Bond 6.6%
Yield 7.08%

OTHER RATES

UK 3-mo Interbank 5.1% (57.24)
UK 10 yr Govt 6.4 (69.78)
France 10 yr OAT 6.15 (105.08)
Germany 10 yr Bund 5.7 (87.78)
Japan 10 yr JGB 5.22 (88.1205)

NORTH SEA OIL (Argus)

Brent Dated 21.45 (18.34)

Abu Dhabi 22.00
Azerbaijan 21.00
Bahrain 21.00
Caspian 21.00
Doha 21.00
Dubai 21.00
Gulf 21.00
Iraq 21.00
Kuwait 21.00
Libya 21.00
Malaysia 21.00
Mexico 21.00
Nigeria 21.00
Oman 21.00
Qatar 21.00
Saudi 21.00
Singapore 21.00
Sri Lanka 21.00
Tanzania 21.00
Thailand 21.00
Timor 21.00
Trinidad 21.00
UAE 21.00
Venezuela 21.00

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European companies stand to gain as reward for 'more lenient' policies

Li Peng warns US over trade

By Tony Walker, Peter Montagnon and John Fiddling in Beijing

Mr Li Peng, the Chinese premier, has warned that Beijing will favour European companies over their US counterparts as reward for their governments' pursuit of "more lenient" policies towards China.

In a blunt assertion of China's intention to use its growing economic weight for political ends, Mr Li praised the Europeans for extending "more favourable terms" to China and strongly criticised the US.

"They do not attach political strings to co-operation with China, unlike the Americans who arbitrarily resort to the threat of sanctions or the use of sanctions."

That is the reason that has prompted China to enter into closer co-operation with the Europeans," he said.

Mr Li, 87, made his remarks in a rare interview. Regarded as a hardliner, China's premier has shunned contact with the western press since he ordered troops to crack down on student demonstrators in and around Beijing's Tiananmen square in 1989.

Mr Li, who suffered a heart attack in 1993, showed no sign of fatigue during a 90-minute discussion at Beijing's Zhongnanhai leadership compound. He made it clear that if talks this week with the US on intellectual property rights failed, China would impose "counter-sanctions" against imports of US goods.

China's premier, who visited

France in May where he signed a \$1.2bn order for 38 Airbus aircraft, made clear more orders would follow if Europe continued to pursue benign policies.

"If the Europeans adopt more co-operation with China in all areas, not just in economic areas but also in political and other areas, then I believe the Europeans can get more orders from China," he said.

Mr Li, who is the architect in the Chinese government of the \$30bn Three Gorges hydro-power dam project on the Yangtze river, said the US decision to withhold US EximBank financing for the

project had effectively "killed" US involvement.

"But," he added, "the decision will lead to no loss for China because China can obtain the same technology from the Europeans or from the Russians."

Mr Li also sought to sound conciliatory on China's difficult relations with the outside world, including the US. Among his main points were:

- China is committed to a "dignified" handover ceremony for Hong Kong.
- Beijing wants to improve ties with the US and hopes relations can survive the presidential election year "without big ups and downs".
- Relations across the Taiwan Strait would be "strengthened in a peaceful manner" if Taiwan

"returns to the position of one China not just in words, but also in deeds".

- China was in no hurry to press its application for membership of the World Trade Organisation.
- Beijing had no plans to phase out tax benefits for foreign-funded enterprises in special economic zones.
- China would ease credit where appropriate to provide working capital to facilitate production of marketable products.
- He said China was committed to pressing ahead with its reform of state-owned enterprises, and would focus its efforts during the ninth five-year plan (1996-2000) in seeking to transform loss-making companies in its north-east industrial heartland.

CBS owner plans split to revive investor enthusiasm

By Richard Waters in New York

Westinghouse Electric, a household name in US business, said yesterday that it was considering splitting into two separate companies in a bid to win back investor support.

The move would be the final chapter in the lengthy restructuring of the conglomerate, during which it has shed businesses in household appliances, furniture, property and, most recently, defence electronics.

The announcement comes seven months after Westinghouse completed a \$5.4bn purchase of CBS, one of the US's three main network television groups, and appeared to be an admission that the deal had failed to rekindle stock market enthusiasm.

By shifting its focus towards broadcasting, a business with higher growth prospects than its traditional industrial operations, Mr Michael Jordan, the company's chairman, had hoped to lift a share price that has barely moved for the past three years.

"The hope was that that would be reflected in the stock price. That has been only partly true," said a source close to Westinghouse.

The group has been concerned about a possible hostile bid. Late last year, it adopted a poison pill plan to ward off that possibility.

A break-up would separate the group's broadcasting business, based around CBS, from its industrial operations, which include power generation and refrigerated transport businesses.

Mr Fred Reynolds, the company's chief financial officer, called the plan "the logical next step" in increasing the group's value.

The stock market welcomed the proposal yesterday morning, lifting Westinghouse's shares \$1.05 or 5 per cent to \$19.75. The reaction echoed the welcome given to other corporate break-ups, including ITT and AT&T.

"The investment community has had a hard time deciding what this company wants to be," said Mr Jonas Stiklorius, an analyst at NatWest Securities in New York.

A break-up would create a broadcasting company with television stations covering a third of US households, as well as one of the country's largest radio station groups and the CBS television network. With its separately traded stock, it would be better positioned to launch acquisitions.

Mr Jordan told a briefing of stock market analysts.

Broadcasting already generates about 60 per cent of the group's earnings before interest, tax and depreciation.

Another aim of a break-up would be to help the group's

Italian PM begins preparing for lira's re-entry into ERM

By Andrew Hill in Milan

Italy, France and Germany have agreed to start work on returning the lira to the European exchange rate mechanism, Mr Romano Prodi, Italy's prime minister, said yesterday in Paris.

Following a mini-summit with Mr Jacques Chirac, the French president, Mr Prodi said the three countries would begin preparations immediately after the Florence summit of European Union leaders on June 21 and 22.

Mr Prodi said that he and Mr Chirac had "prepared the procedure for ERM re-entry". Yesterday's meeting was part of a pre-summit tour of EU capitals by the Italian prime minister. Italy holds the presidency of the Union until the end of June.

After a summit two weeks ago with Mr Helmut Kohl, the German chancellor, the Italian prime minister said he was aiming to return the lira to the ERM by the end of the year.

Since then, the new Italian government has been under pressure from the financial markets to clarify its position on rejoining the ERM.

Yesterday's declaration underpins the commitment to early re-entry, especially as Mr Chirac was last year among the most vocal critics of the weak lira.

Mr Chirac caused a diplomatic row at last year's Cannes summit of EU leaders when he criticised Mr Lamberto Dini, then Italian prime minister, for the way in

which the weakening lira was distorting competition between French and Italian businesses.

Yesterday, the lira stood at about L1,010 against the D-Mark, compared with nearly L1,200 a year ago. Analysts believe that if preparatory work on ERM re-entry starts at the end of this month, the currency could return to the system during the autumn.

The lira left the ERM, with sterling, in September 1992, and political instability made it one of the most volatile European currencies in the following three years. But in the past 12 months, the lira has recovered strongly, and was helped by the April 21 election of a centre-left government.

Italian entrepreneurs have even begun to express concern that they may lose the competitive position they built up in export markets between 1992 and 1995.

Mr Prodi said Mr Chirac had expressed "satisfaction with the new political stability in Italy, which will allow a deeper relationship between Italy and France, and will contribute to European integration".

The Italian prime minister added that the mini-budget for 1996, necessary to put the Italian economy back on course towards the Maastricht treaty's economic convergence targets, would be completed before the Florence summit.

Adams plea over Ulster talks

By Steve Fife in Belfast

Ulster Unionist Party (UUP) president Gerry Adams (left) makes a plea to a Northern Ireland Office official outside Stormont Castle, Belfast, for an explanation of his party's exclusion from talks on the province's future. Report, Page 8 Picture: Reuters

Continued on Page 16

Lex, Page 16

Currencies, Page 27

Pressure on Israeli PM, Page 5

Continued on Page 16

Damascus bombing targeted at Syria's president

By David Gardner, Middle East Editor

President Hafez al-Assad of Syria, the driving force behind attempts to forge a common Arab front after the recent election victory of the rightwing Likud in Israel, was the target of a bomb attack in Damascus, according to senior Arab political sources.

The sources confirmed claims last week by the US State Department that there had been several explosions in Syria over the past month. The Syrian government last Thursday dismissed these claims as "silly and baseless".

But the Financial Times has learned that a bomb exploded on May 6 on the route Mr Assad was to have taken to the annual commemoration of nationalist rebels executed by the Ottoman Empire in the 19th century. The Syrian leader did not, in the event, attend the ceremony.

Since that explosion, Mr Assad's security services have arrested about 600 people, the Arab sources say. The arrests have been almost entirely among the ethnic Turkish community in Syria, indicating that Damascus suspects Turkey, a US ally and Nato member, of trying to undermine Syrian stability.

There have also been two recent call-ups of army reservists: at the end of April, during Israel's 17-day bombardment of Lebanon, and in May.

The Syrian government had claimed that the US report of explosions was an attempt to "divert world attention from what is happening in Israel". Mr Benjamin Netanyahu, the Likud prime minister-elect, has said he will not surrender the captured Golan Heights in exchange for peace with Damascus, or countenance a Palestinian state.

Circumstantial reports on unexplained explosions in Syria began appearing late last week in newspapers in Lebanon, which is policed by 40,000 Syrian troops stationed there since the height of the 1975-90 Lebanese civil war. But the reports concentrated on the State Department's "advisory" last Tuesday urging

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كندا والشرق

De Benedetti to appeal over jail term

By Andrew Hill in Milan

Mr Carlo De Benedetti, chairman and chief executive of Olivetti, the Italian information technology group, is to appeal one last time against the "unjust and unjustified" four-and-a-half-year jail sentence handed down yesterday for his role in the collapse of Banco Ambrosiano 14 years ago.

The sentence will be suspended awaiting the final appeal, which may not begin for another year. Advisers to Mr De Benedetti, who was briefly deputy chairman of Banco Ambrosiano before its collapse, said yesterday that amnesties on jail terms meant the industrialist would not have to go to prison, even if the appeal to Italy's highest court failed.

They added that there would be no financial or legal consequences for the companies he heads, which include Olivetti and the two quoted Italian

holding companies, Cir and Cofide. The Milan appeals court reduced Mr De Benedetti's original sentence of six years and four months, handed down in 1982 for being an accessory to the fraudulent bankruptcy of Banco Ambrosiano, run by Mr Roberto Calvi, the financier found hanging under Blackfriars Bridge, in London, in June 1982.

The court also cut the sentences of other defendants. Of the 33 people sentenced in 1982, 13 have already plea-bargained lower sentences and three have died. Mr Licio Gelli and Mr Umberto Ortolani, accused of manipulating the bank through the banned P2 Masonic lodge, had their sentences reduced to 12 years each. Both men will appeal.

Mr De Benedetti, 51, is one of the few defendants of the original Ambrosiano case still in the international limelight, although his reputation has also been dented by the unrelated admission three years

Carlo De Benedetti: the case history

November 1981: Carlo De Benedetti appointed deputy chairman of Banco Ambrosiano

January 1982: Signs as deputy chairman, later being a proponent to his own merger with Ambrosiano chairman Roberto Calvi

June 1982: Calvi found hanging under Blackfriars Bridge in London

August 1982: Donato Ambrosiano collapses with around \$1.3bn debts, despite the bank being well-capitalised

May 1984: Ambrosiano debts wiped for \$1.3bn, 90 per cent paid in the subsequent 18 months by the Italian Bank

February 1987: Wins an award for the rescue of Ambrosiano. Paul Trussard, ICB chairman, over 100 investment in Ambrosiano

April 1992: Joint venture partner, including De Benedetti, sentenced to jail for involvement in the affair

July 1994: Berlusconi appoints De Benedetti as chairman of the board of directors of the newly formed Berlusconi Media Group

June 1996: Merger with Olivetti, 90 per cent owned by the industrialist, to create a new group of companies, including De Benedetti, under further steps

"I can only conclude that the court has not had the courage to make a distinction between my position and that of the other defendants"



ago that Olivetti paid politicians for contracts, and the persistent losses of the computer manufacturer.

Banco Ambrosiano collapsed in 1982 with \$1.3bn of debts, setting off a scandal which involved the Vatican and some of Italian finance's best-known names. Mr Calvi invited Mr De Benedetti to become deputy chairman in late 1981, a post the industrialist held for 65 days, before he was forced out.

The criminal cases have focused on the stake in Banco

Ambrosiano bought by Mr De Benedetti just before he took on the job, and sold to third parties just after his departure. The courts have so far upheld prosecutors' claims that the industrialist made an illegal profit on the sale.

Mr De Benedetti said yesterday that in spite of "deep bitterness for this unjust and unjustified sentence, I continue to maintain the equanimity deriving from my firm belief that throughout this affair I have always acted properly

Paris denies threat from welfare deficit

By David Buchanan in Paris

The French government yesterday claimed its plans for European monetary union, tax restraint and welfare reform would not be pushed off course by the official forecast that the social security deficit will rise to FF48.6bn (\$9.45bn) in 1996, or triple the FF16.6bn target.

The finance ministry said it would hold to its timetable of reducing the overall deficit to 4 per cent of national output this year, preparatory to a cut to 3 per cent next year, one of the criteria for qualifying for European monetary union.

Scrambling to reassure public opinion and the financial markets, Mr Hervé Gayraud, junior social security minister, told one radio station "there is no question" of any new welfare charges to plug the extra deficit.

Mr Jacques Barrot, social affairs minister, told another radio station "the French should be not discouraged from continuing the effort" which, he said, would require "endurance and perseverance".

Leaked several days in advance of its formal publica-

tion on Wednesday, the report by the Social Accounts Commission is not an indictment of Prime Minister Alain Juppé's controversial reforms to cut health, pension and family allowance spending from this year on.

Indeed, it says the Juppé reforms look like being 85 per cent successful in pruning spending by some FF31bn this year. But these savings will be wiped out by a big correction to take account of past family allowance spending, and by an estimated FF30bn shortfall in receipts from payroll charges, depressed in line with economic activity.

If the economy picks up in the second half of the year, receipts should increase, Mr Barrot said yesterday, pointing out that a one percentage point increase in the national wage bill brings FF10bn extra into the welfare system.

The Unedic national unemployment insurance scheme, which is run separately by employers and unions and not covered by the Social Accounts Commission's figures, is also expected to show a FF6-FF7bn surplus this year. The overall welfare deficit for the

year might therefore end up not much more than FF40bn, which the government might try to deal with by enlarging the scope of its new tax-backed Cades bond issue.

More worrying for the government is the comment by Mr Jean Marmot, secretary-general of the Social Accounts Commission, in the report's introduction that "it would be imprudent to count on a return to balance [of the health, pension and family allowance schemes] from 1997". That is precisely what the government is banking on to bring total public - budget and welfare - deficits to 3 per cent next year.

A fresh financial challenge comes today with the government announcement of how it plans to relieve the SNCF state rail system of some of the crushing burden of financing infrastructure. The signs are that Mr Bernard Pons, transport minister, will tell parliament the state will increase from FF13bn to FF23bn a year its subsidy for track laying and maintenance, the responsibility for which will shift from the SNCF to a new state structure.

Ukraine voices economic optimism

By Matthew Kaminski in Kiev

Ukraine yesterday opened talks with the International Monetary Fund on a new loan programme at a time of growing optimism that the country will soon see an end to five years of economic decline.

The IMF will begin exploratory discussions on a three-year loan package and programme of structural reform, scheduled to begin next year. It will also assess whether Ukraine has complied with the conditions of the current \$900m stand-by loan, which will be disbursed in monthly tranches until December.

The lowest registered monthly inflation rate in Ukrainian history, of 0.7 per cent in May, and the continuing strength of the karbovan-

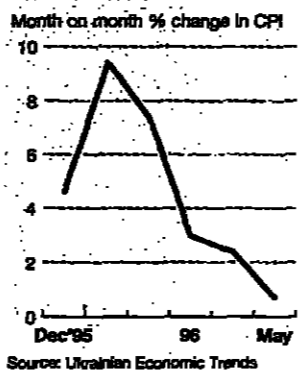
ets currency, steady at around 185,000 to the dollar since last August, prompted government ministers at the weekend to declare that Ukraine's economy has turned the corner.

But growth remains stagnant and economists only expect output to finally bottom out this year. Production fell 11.8 per cent in the first quarter, the biggest drop in the former Soviet Union.

There is also concern over the budget deficit. An IMF official said that the deficit is "close to the limit" agreed with the fund.

He also warned that low inflation might be merely seasonal, and cautioned Ukraine's "track record of stabilisation and low inflation is very short". Administrative price increases in July are likely to

Ukrainian inflation



Source: Ukrainian Economic Trends

raise inflation again. However, Mr Victor Yushchenko, the central bank governor, said no more money would be printed this year to cover the budget deficit, which, if true, would

put the target of 40 per cent annual inflation within reach.

There have also been firm signals from the new prime minister, Mr Pavlo Lazarenko. In his first speech, Mr Lazarenko at the weekend tried to dispel alarm among Ukrainian liberals about his commitment to reform. Mr Lazarenko said that, with inflation under control, privatisation and land reform would be his government's top priority.

Mr Lazarenko also indicated the cabinet would be reshuffled this week. The finance minister has been criticised for poor budget control. Reformist economists ministers are now expected to stay on, although the pro-western justice minister, Mr Serhei Holovaty, yesterday resigned.

Mr Jeffrey Sachs, a Harvard

economist and a new adviser to the Kiev government, said Ukraine now needed a growth strategy that emphasised tax and bureaucratic reform to goad back domestic investors from the large shadow economy. He criticised the IMF programme as "unimaginative" for not lowering taxes and overhauling social spending.

He said exports, which could propel a recovery, have failed to rebound to more lucrative western markets.

Ukraine ran a \$533m trade deficit the first two months of the year, according to the statistics ministry.

Another potential hindrance to growth is persistently high interest rates. The estimated annualised real interest rate is 66 per cent.

French economic magazine owner files for bankruptcy

By Andrew Jack in Paris

The financial troubles of France's business press were highlighted yesterday when the publisher of the weekly magazine *Nouvel Economiste* filed for bankruptcy.

Mr Henri Nijdam demanded protection from his creditors while maintaining his hope that a court-appointed administrator would pursue his rescue plan, including a further FF7m (\$1.35m) in financial support.

Nouvel Economiste, loosely modelled on *The Economist* magazine to cover a mixture of business, politics and macro-economic issues, was formed by the merger in 1975 of two

business magazines founded after the second world war, one owned by the Hachette group and the other by Havas.

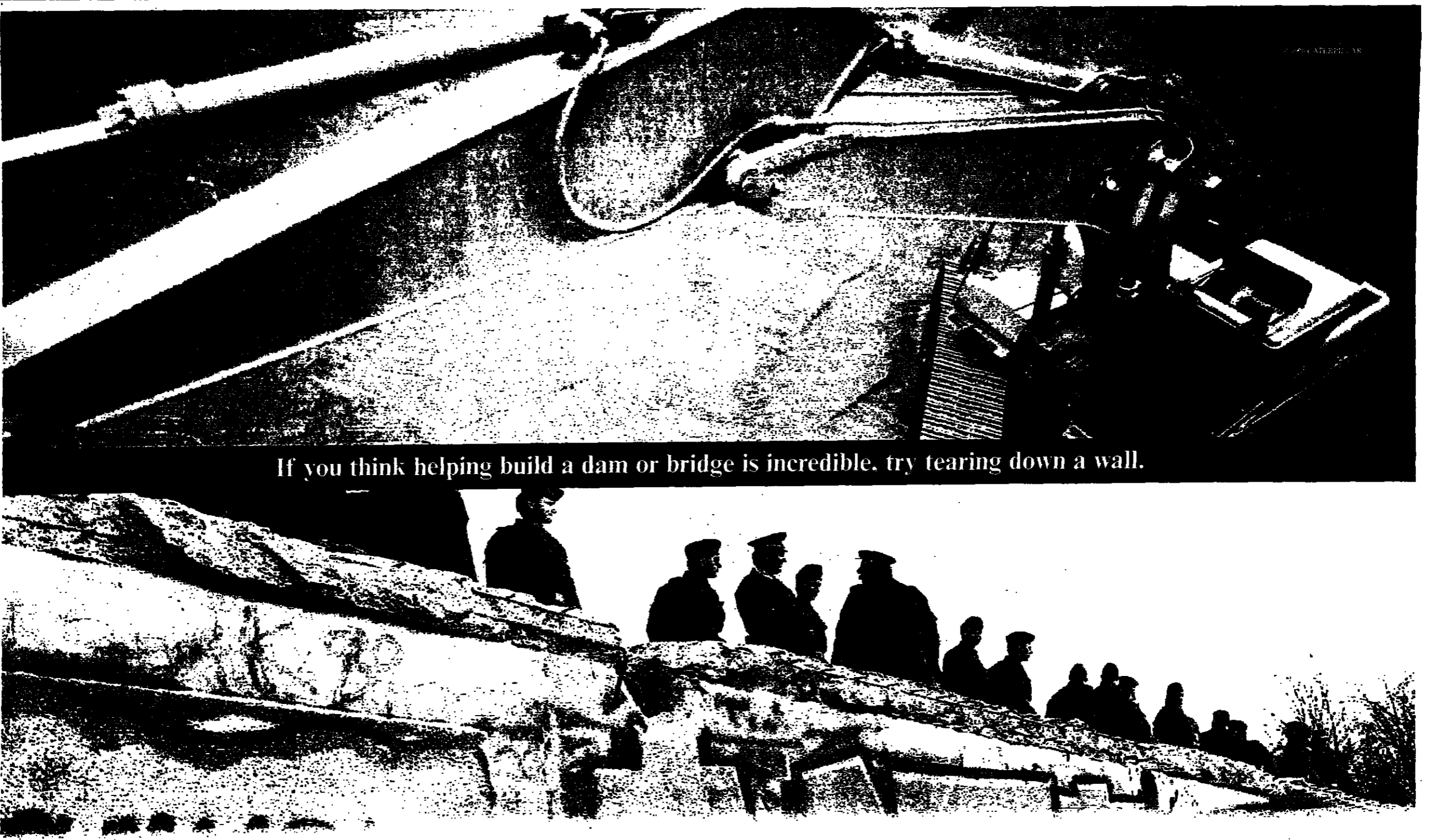
Mr Nijdam has already gathered FF10m from outside backers and reached a co-operation agreement with the daily newspaper *Le Monde*, which includes a plan to move the magazine into its offices and grant the paper up to 35 per cent of the capital over the next five years.

The action comes at a time of intense financial difficulties for the French press, in particular for the overcrowded business field, where there are three daily newspapers and another seven magazines.

Mr Nijdam took charge in

1992 with a group of outside investors, but has long complained about the absence of sufficient capital for the magazine, which has lost FF120m in the last three years. He stresses that circulation has risen by more than 30,000 to just over 100,000 since he took charge, and believes *Nouvel Economiste* can break-even with 120,000 readers.

Under his latest plan in conjunction with *Le Monde*, Mr Nijdam believes *Nouvel Economiste* could break even at the operational level in 1997. The bankruptcy judge is expected to take charge of the magazine on Thursday, and will decide whether to accept his proposals or seek to sell off assets.



If you think helping build a dam or bridge is incredible, try tearing down a wall.

The fall of the Berlin Wall was more than the demolition of a historic concrete barrier. When Caterpillar equipment helped bring down the wall, it created new opportunities for expanding markets in Central Europe and around the world. In fact, a sizable chunk of the peace dividend is already

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NEWS: ASIA-PACIFIC

Corruption probe puts Rao under pressure

By Shiraz Siddiqui in New Delhi
Allegations of corruption against the family of Mr P.V. Narasimha Rao...

Mr Jaipal Reddy, the United Front spokesman, said the allegations would not affect the outcome of the confidence vote...

The Communist Party of India (CPI) has demanded a probe into the scandal, saying there would be no compromise on the issue...

Import growth cuts Japan surplus

By William Dawkins in Tokyo
Japan's current account surplus in April was down 45 per cent on a year earlier...

Export growth was constrained by the sudden slowdown in world demand for semiconductors...

Import growth has been slightly exaggerated when counted in depreciating yen, because three-quarters of imports are denominated in appreciating foreign currency...

The US and Asia were the main focus, though Europe also achieved a small rise in its share of Japan's foreign spending...

China was the fastest growing destination for Japanese investment, up 61 per cent to ¥432bn...

Bank lowers rate as monetary fears ease

By Gerard Baker in Tokyo
Industrial Bank of Japan, the country's leading provider of long-term credit for industry...

ing funds for one year or longer, is the first for six months, and reflects recent diminishing expectations in bond markets...

ty and central bank officials have played down the prospect of an early monetary tightening...

Long-Term Credit Bank of Japan and Nippon Credit Bank, the other banks in the sector...

when the market yield on the most recently issued debenture declines from its original coupon rate by 0.5 percentage points or more...

One-all in public battle to reform Philippine tax system

Manila's wealthy have been given something of a jolt over the past few days...



The newly built Gugo bridge north of Manila collapsed at the weekend as a 10-wheel lorry crossed it...

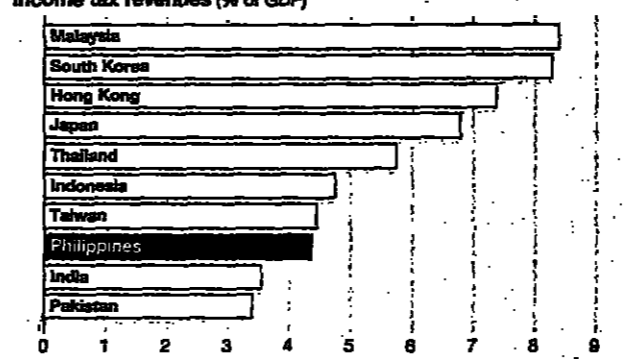
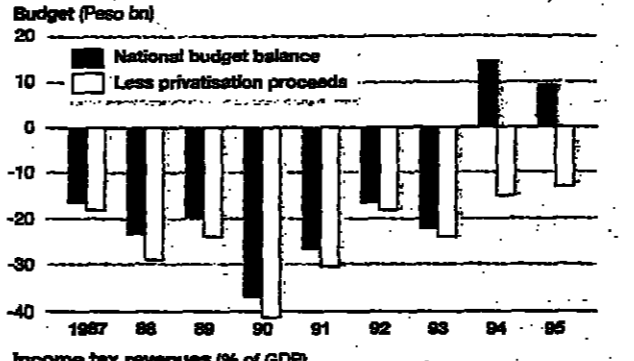
The exercise - designed to embarrass people who were generally expected to be on the list but somehow managed not to...

Congress, which went into recess yesterday having failed to carry out its pledge to enact the bill during this session...

tax structure but would also raise more revenue than the current system...

ghost" marketing subsidiaries. Mr Tan, who successfully contended that the government had breached his rights...

Philippines: the revenue squeeze



Source: Government Commission on Privatization and Ratings

S Korea awards telecom licences

By John Burton in Seoul
The LG group yesterday beat a Samsung-Hyundai alliance to win a coveted licence to operate South Korea's first personal communications service (PCS)...

Seoul on European access to Korea's telecom equipment market ended in apparent stalemate last week...

State-run Korea Telecom and Hansol, the country's leading paper company, also received licences to operate PCS networks...

Other licences went to Anam, an electronics company, for a national trunked radio service...

of reform, say economists. The government had hoped that increased tax revenues would compensate for a decline in the proceeds from the privatisation programme...

The new licences are expected to generate Won6,000bn (\$7.6bn) in sales, with Won1,000bn for telecom operators and Won5,000bn for telecom equipment manufacturers...

Participation of manufacturers such as LG in providing services should strengthen their control over the domestic market...

INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT

Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1985=100...

Table with columns for Country, Year, Retail sales volume, Industrial production, Unemployment rate, and Vacancy rate. Rows include United States, Japan, Germany, France, Italy, and United Kingdom.

Advertisement for Mandarin Oriental, Macau. Text: 'Mandarin Oriental, Macau. Don't gamble on any other hotel in the enclave. Where to find the rest of the World's Finest Hotels & Resorts'.

Advertisement for China move on provident fund for HK. Text: 'China move on provident fund for HK. By Louise Lucas in Hong Kong. China's top official on Hong Kong affairs yesterday suggested the territory adopt Singapore's state pension scheme as a model for a mandatory provident fund which the territory is to set up.'

Attacks put pressure on new Israeli PM

By Julian Ozanne in Jerusalem

Attacks against Israelis by Arab guerrillas in Lebanon and the West Bank have killed seven people and piled pressure on Mr Benjamin Netanyahu, incoming Israeli prime minister, who has promised to increase personal security.

The attacks, one by pro-Iranian Hizbollah guerrillas in Israeli-occupied southern Lebanon yesterday and the other by Palestinian extremists in the West Bank late on Sunday, sent strong signals to Mr Netanyahu about the potential for violence in the absence of an unfolding peace process embracing exchange of occupied land for peace.

The attacks coincided with an announcement from Egypt of an overwhelmingly positive response from Arab leaders to an invitation to a summit in Cairo on June 21 to co-ordinate a Middle East peace strategy to deal with Israel's new right-wing government.

The outgoing prime minister, Mr Shimon Peres, warned Hizbollah against escalating attacks in south Lebanon after its fighters killed five Israeli soldiers in the worst incident since the end of Israel's April offensive. "Israel will respond in the manner it deems appropriate, at the right time and place, and warns Hizbollah not to continue to heat up the area at the expense of Lebanese civilians," Mr Peres said after holding emergency talks with Mr Netanyahu.

Israeli officials said the Hizbollah attack in southern Lebanon tested a US-sponsored ceasefire agreement. They accused Syria, the dominant power in Lebanon, of giving the green light for the attack to warn Mr Netanyahu about the kind of future Israel might face if it turned away from the peace process.

Mr Haj Mahmoud Goumati, a senior Hizbollah official, warned of further attacks and said Mr Netanyahu's policies would return the Middle East to confrontation.

The Hizbollah attack came shortly after Arab gunmen killed two Jewish settlers on Sunday near Hebron, the West Bank town which has been a flash point of Arab-Jewish violence.

Mr Frei Abu Meidan, Palestinian justice minister, warned that the West Bank attack might be the first sign of growing violence following Mr Netanyahu's election. "Now expect the unexpected in the area," he said. "If Mr Netanyahu and his government turn their back on the peace process... expect more violence."

In Cairo Mr Amr Mousa, Egypt's foreign minister, said he expected 20 Arab leaders to attend the first full summit the Arabs have managed to arrange since 1990.

The growing signs, at least on the surface, of Arab unity caused alarm in Israel and the US, which has invested considerable resources in Middle East peacemaking.

Bank for International Settlements AGM in Basle BIS considering expansion

By Gillian Tett in Basle

The Bank for International Settlements is considering inviting fast growing countries in Asia and Latin America to join its ranks, in what would be the first significant expansion of the group for 20 years.

The discussion in the group, which acts as an influential meeting point for the world's largest central banks, could affect about a dozen countries, including Singapore, Argentina and Mexico.

However, the suggestion has proved controversial within the BIS, which has 32 members at present, largely drawn from the European and western world.

In particular, some of the largest G7 countries are likely to put up stiff resistance, fearing that expanding membership too rapidly could threaten the group's informal atmosphere and sharply reduce the influence of existing members.

The debate in the BIS has been triggered by a recognition that the rapid growth of Asia is shifting the centre of economic gravity.

These changes have already provoked intense debate about expansion at the Organisation for Economic Co-operation and Development. The BIS is similarly aware that emerging markets are having a growing impact on financial markets.

Lending to Asian countries last year, for example, reached record levels at \$84.5bn, and was an important factor in the broader rebound in international banking activity.

The BIS has sought to cope with these trends by increasing the level of co-operation with these countries over the past year. With many of them present at the annual general meeting yesterday, Mr Wim Duisenberg, BIS president, said he hoped the process would continue.

However, some Asian countries accuse the BIS of remaining distinctly cautious over expansion.

The BIS, which was founded in 1930, has two main groups of members: G10 countries largely dominate the BIS board, but 22 other countries - including South Africa, Turkey and most east European nations - also own shares in the BIS and have voting rights.

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Duisenberg: increasing co-operation

'Feel bad' factor grips western world

BIS shows subtle change of tone by cautioning against both inflation and deflation

The western world is gripped by a lack of confidence and a 'feel bad' factor that is unprecedented in recent economic history, the Bank for International Settlements said in its annual report yesterday.

While growth in the US remained steady and the recovery in Japan was gathering pace, consumption had been dampened by job insecurity and the need to trim fiscal deficits, it warned.

Central bankers now needed to consider the risks of falling prices as well as inflation in setting their monetary policy, it said. "Price stability has been reached or nearly reached in a large number of countries."

"The forces bearing on the price level... are now more balanced than they have been for some decades."

The report, issued as the world's central bankers gathered in Basle for the BIS annual general meeting, marks a change of tone for the group. In recent years the BIS, which acts as a highly influential meeting point for the world's central banks, has emphasised the need to combat inflation at all costs, and limited its analysis of labour market problems.

But with central banks having been accused in some countries of curbing growth in their zeal to control inflation, the BIS emphasised that monetary

policy could be both expansionary and restrictive - and called on policy makers to "resist both inflation and deflation".

This subtle change in tone may fuel market speculation that central banks might be slower to raise interest rates again in the next economic cycle. However, the BIS denied that it was encouraging lax monetary policy, while Mr Wim Duisenberg, BIS president, warned that the "continuing buoyancy of the US economy" might pose an inflation risk in the future.

Nevertheless, it admitted that some new deflationary factors were emerging in the world - namely increased global competition, wage flexi-

bility and continuing attempts to cut fiscal deficits.

With these factors partly to blame for the "feel bad" problem, the BIS acknowledged that central bankers could do little themselves to boost sentiment. In the longer term, however, it argued that consumer confidence should rebound.

Although the timing of the upturn in Europe was still uncertain, growth elsewhere in the world was healthy and the world markets were unlikely to trigger any recessionary jolts.

In particular, low inflation meant that "the pattern of 1994" in the bond markets was unlikely to be repeated this

year. Mr Duisenberg said. "Major financial markets have been relatively calm."

Total net financing through euronotes and international bonds reached an all time record of \$313.2bn in 1995 - a 13 per cent increase on the previous year. International banking activity rebounded strongly in 1995, after dipping in 1994, the report said.

The financial system had weathered the 1994 Mexican crisis well but the BIS insisted that bankers still needed to step up their surveillance of the financial system and collect more information about the global derivatives market, which it recently valued last year at some \$40,600bn.

It also warned the banking sector of "serious challenges" that would force widespread restructuring, mergers and job losses. Branch networks would probably shrink, many banks would be merged, and the total number of private banks operating would need to fall considerably.

Although Anglo-Saxon and Nordic countries had already sharply cut jobs, such countries as Japan, Germany and Italy had barely made any headway yet in trimming their staff - which implied that job cuts would be needed in those countries soon.

Gillian Tett

S Africa 'should reassign unused mineral rights'

By Mark Ashurst in Johannesburg

South Africa could increase its coal exporting capacity by transferring the mineral rights for undeveloped coal reserves to new mining groups, according to a survey by the International Energy Agency published yesterday.

The survey will add to pressure from the ruling African National Congress for legislation enabling the rights to other undeveloped mineral reserves to be allocated to new companies.

"The principle is use it or lose it - and we want to do this for all mineral rights, not just coal," said Dr Paul Jourdan, special adviser at the Department of Trade and Industry.

"This has always been the policy of the ANC. Foreign investors have been saying they will not look at South

Africa until we do this."

The most probable mechanism for encouraging the transfer was a tax on mineral rights that would be 100 per cent deductible in areas where prospecting was under way.

Mr David Hall, analyst at ING Barings, warned that such a tax should not be universally applied.

"There is a big difference between gold, where there is unlimited demand and the only factor is cost, and platinum, which is subject to demand-and-supply fundamentals. You can damage your own industry by thinking that you are going to control it."

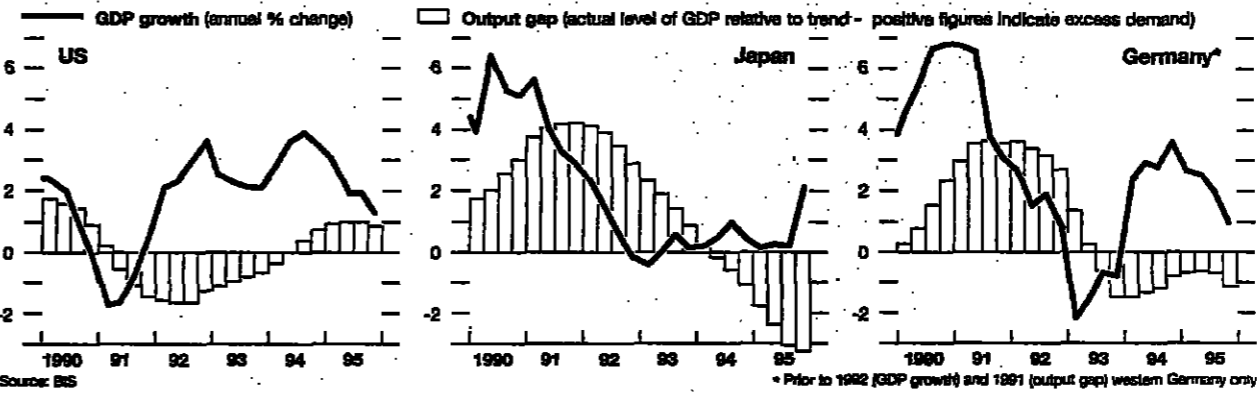
The IEA, which is allied to the Organisation for Economic Co-operation and Development and monitors oil and energy market trends on behalf of western industrialised countries, also cautioned that introducing competition to the

electricity industry or privatising state-owned utility Eskom within the next five years could frustrate the national electrification programme. The government plans 2.5m connections to the national grid by 2000, raising electrification from about a third to 72 per cent of the population.

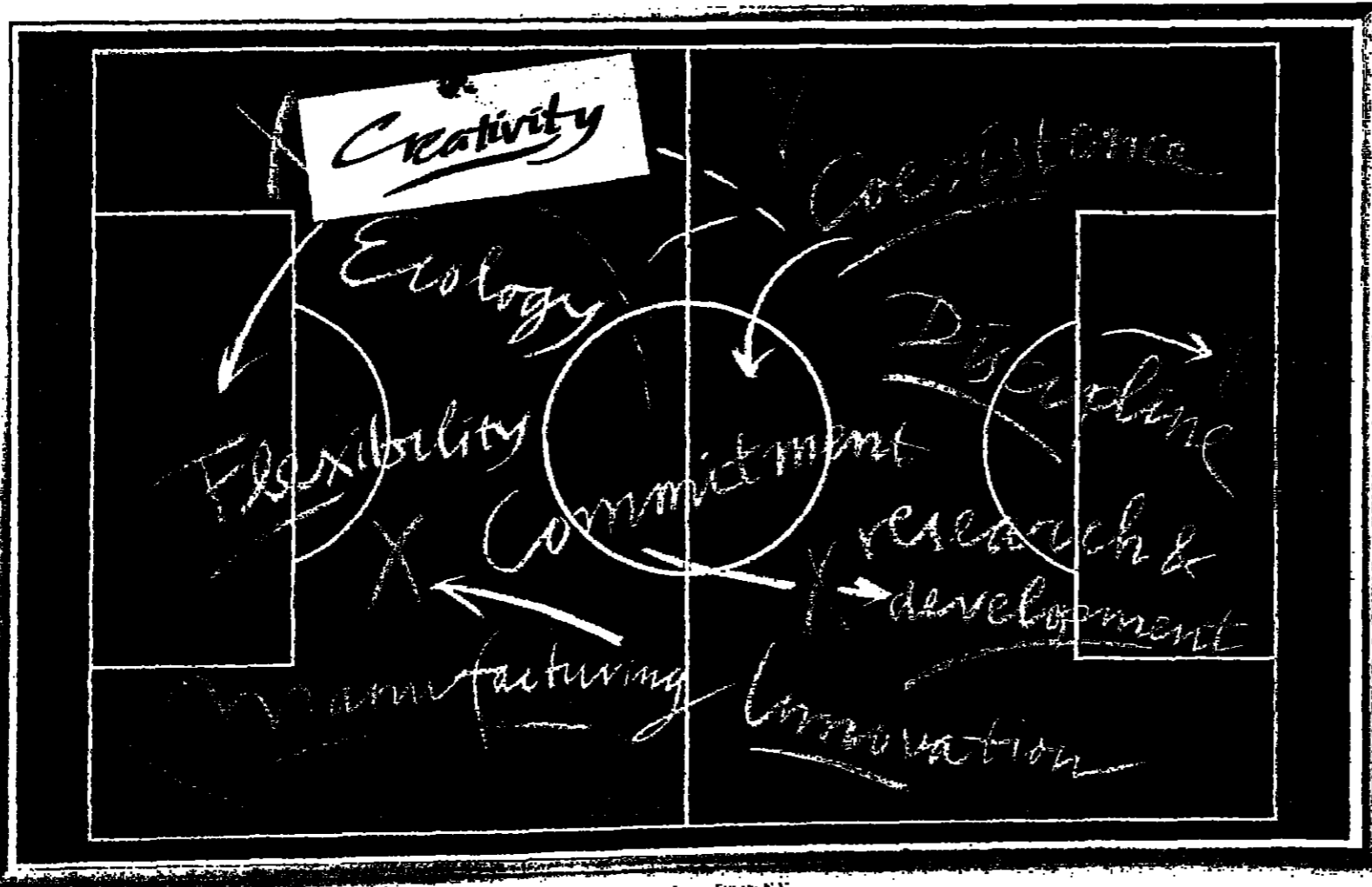
But it urged the government to "seriously consider" privatising Soekor, the state-owned oil and gas exploration and prospecting company.

The survey recommended more stringent controls for the energy industry, but said the government did not have the capacity to implement a sophisticated regulatory structure. The tradition of self-regulation developed during the sanctions era, when energy suppliers aspired to be self-sufficient, was "in urgent need of strengthening and modification".

GDP growth and the output gap in the top three economies



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NEWS: WORLD TRADE

Consortium wants to persuade Beijing to become a partner in developing 'super jumbo'

Airbus hoping for Chinese role in A3XX

By Michael Skapinker, Aerospace Correspondent

Airbus Industrie intends to use its likely involvement in the development of a 100-seat Chinese jet to persuade China to become a partner in the A3XX, the European consortium's planned 'super jumbo'.

has over the large aircraft market. Boeing plans to begin developing a 500-seat version of its 747-400 this year.

Airbus officials believe the consortium's improving relations with China offer it the opportunity of persuading the Chinese to become both partners in and eventual customers for the A3XX.

the Chinese 100-seater, however, which European executives believe offers the best hope of involving China in the A3XX.

Regional (Air), a company owned by Aerospaciale, BAE and Alenia of Italy.

Power play raises stakes in chip trade

Guy de Jonquères on international manoeuvring over the world market for semiconductors

Electronics industry leaders often proclaim that the power of information technology is rendering national frontiers irrelevant.

late July. Washington wants the accord renewed, but Tokyo is resisting. It says the deal amounts to "managed trade" because it sets numerical targets for foreign chip sales in Japan.

facturers, including those in South Korea and Taiwan. The Japanese have suggested that the scheme cover areas including technical co-operation between chip users and suppliers, standards, environment, safety and copyright protection.

The proposal marks a shift by Japanese manufacturers, which had reacted coolly to an earlier EU proposal for a less ambitious industrial collaboration arrangement.

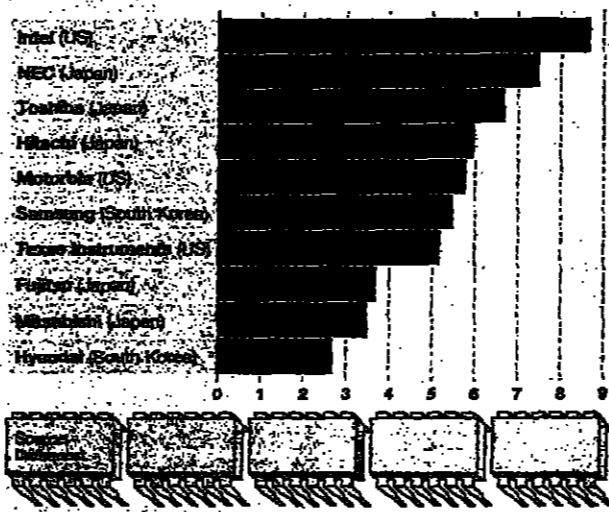
Their change in attitude appears to reflect the influence of Japan's Ministry of International Trade and Industry (Mitl), which, with the European Commission, was closely involved in preparing last week's talks.

Mitl officials believe a multi-lateral co-operation could help deflect US trade pressure. Encouraging private sector co-operation would also give Japan's government another argument against foreign demands that it "organise" trade by intervening in the chip market.

But though broadly endorsed by the European companies, the proposal has been coolly received in the US. The US

The world of semiconductors

Top ten companies by market share 1995 (%)



Semiconductor Industry Association does not rule out discussing it eventually, but says it is "a distraction" designed to frustrate settlement of US-Japan trade issues.

The US government and industry are also refusing to involve the Europeans in any talks with Japan until the EU scraps its semiconductor tariffs.

Some industry observers remain optimistic that these differences can be overcome, and a global IT agreement concluded.

Sakhalin I oil project to begin

By Robert Corzine

Exxon, the largest US oil company, says work is to begin soon on the \$15m Sakhalin I oil and natural gas project in Russia's Far East region.

The decision to start appraising the three offshore fields in the project was made despite the fact that Moscow still has to complete a legal framework for big international energy developments in Russia.

Exxon, which has a 30 per cent stake in the project - one of three planned in the area - yesterday said a \$200m-\$300m appraisal programme would begin this summer.

Some industry observers remain optimistic that these differences can be overcome, and a global IT agreement concluded.

"Something will be worked out. It's too soon to talk of breakdown," says Mr Greg Garcia of the American Electronics Association.

But the only certainty is that if the wrangle is to be sorted out, at least one of the protagonists will have to climb down.

WORLD TRADE NEWS DIGEST

Australia plans freer skies

Australia's new federal government is to pursue a more liberal policy on air freight and charter flights, mainly to give exporters better access to Asia.

Mr John Sharp, transport minister, said new guidelines would aim at increasing the number of flights dedicated to freight. The government would seek bilateral deals with other countries and pursue a broader agreement through the Asia-Pacific Economic Co-operation (Apec) forum.

Possible initiatives were removal of restrictions on third country freight operations flying the Australian route, and a freeing-up of the freight-charter approval process, where the air services were likely to carry Australian exports.

Easier guidelines for passenger charter traffic outside the main cities should also help tourism in regional centres, he added.

Egyptair to buy seven jets

Egypt's national airline, EgyptAir, intends to buy four new Airbus jets and three Boeings after predictions of a big increase in profits this year.

He said EgyptAir had ordered four Airbus A321s from the European company and had arranged a \$300m loan from European banks to finance the deal.

Expected to be delivered in late 1997. The state airline had also signed a \$80m deal for three Boeing 777s to be delivered by the US manufacturer between May and August 1997.

EgyptAir expects a profit in the 1996-97 fiscal year totalling \$238.5m (\$28.5m), up from \$230m the previous fiscal year, he said.

Carmakers eye Philippines

Fresh from failing to sway General Motors, the world's biggest carmaker, to locate its latest plant in the Philippines rather than Thailand, Ms Marita Jimenez, director for investments promotion at the country's Board of Investments, said GM, Ford and Chrysler were all thinking about making the Philippines the base for their automotive parts distribution operations.

Ms Jimenez said officials from the "big three" carmakers communicated their plans to a Philippine trade and investment mission on a recent US visit. She added the companies were also considering setting up local joint ventures to make car parts. The Philippine government has argued that low local costs and good communications mean the country offers advantages as a manufacturing base to service south-east Asia's booming car market.

Contracts

Tampella Power, the Finnish chemical recovery system supplier, has won a \$70m contract to supply two recovery boilers to the RT Riau Andalan chemical pulp in Sumatra, Indonesia.

Kimberly-Clark of the US will jointly make and market consumer products in Israel after signing an agreement with American Israeli Paper Mills, it said yesterday. Kimberly-Clark will invest some \$50m to buy 48.8 per cent of Bogla, a wholly owned subsidiary of AIPM. The new venture will be called Bogla-Kimberly Ltd and will be managed jointly by Kimberly Clark and AIPM.

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Warner in Virginia primary today

Challenge to moderate GOP senator

By Jurek Martin, US Editor, in Washington

The long war for the hearts and minds of the Republican party in Virginia goes into another battle today, in the state primary election over the future of incumbent US senator, Mr John Warner.

He is being challenged by Mr Jim Miller, the four former budget director in President Ronald Reagan's White House, in a classic confrontation between religious and cultural conservatives on the one hand and establishment Republican moderates on the other.

The contest might be most significant in state terms but it has attracted more than its share of national political headlines. Senator Bob Dole, the apparent Republican presidential nominee, has campaigned on behalf of Mr Warner, as has retired General Colin Powell.

Mr Miller has been able to field Mr Oliver North, of Iran-Contra notoriety, as well as Mr Ralph Reed and the Rev Pat Robertson of the Christian Coalition lobby, Mr North, now a right-wing talk show host on radio, defeated Mr Miller in the 1994 Republican senatorial primary before narrowly losing to Senator Chuck Robb in the general election for Virginia's other Senate seat.

The patriot Mr Warner, first elected in 1978 and once married to Elizabeth Taylor, the film star, has long shown public contempt for the Christian conservatives who have come to dominate grass-roots organisations in the state Republican party.

That was most evident in 1994, when he said Mr North's involvement in the Iran-Contra affair rendered him unfit for

public office and then persuaded Mr Marshall Coleman, a former Republican lieutenant-governor, to run as an independent candidate. Mr Coleman divided the conservative vote and helped put Mr Robb back in the Senate.

Two weekends ago, Mr Warner refused to turn up at the state party convention which officially nominated Mr Miller. But he had previously rendered the convention academic by invoking state party laws giving preference to any candidate who demands a fully fledged primary election.

Mr North's speech at the convention, accusing Senator Warner of a "blasphemous" and "unconscionable" betrayal two years ago, instantly transformed the current contest into a re-run of 1994. Mr Miller, who had himself called Mr North an unselectable "fraud" in their primary race, embraced his old adversary and promised to be his "friend for life".

The outcome may depend on the turn-out, especially in conservative rural areas, where Mr Miller's support is strongest. Mr Warner has the clear edge in finance, and therefore in TV commercial exposure.

Even Mr Reed, who has recently distanced himself from some dogmatic Christian conservatives on the issue of abortion, conceded it was "extremely difficult" to upset an incumbent senator in a primary.

Virginians can expect some confusion in November over names if Senator Warner prevails today. Last week, the Democrats, having dispensed with a primary, held a convention and nominated another Mr Warner (Mark, a businessman) as their candidate.



Myrtle Evers-Williams, head of the board of the National Association for the Advancement of Colored People, visits the remains of a church in North Carolina at the weekend. *Photo: Reuters*

Clergy complains about FBI over spate of arson at black churches

Plea to stem US 'tide of racism'

By Patti Waldmeir in Washington

Ministers of black US churches hit by a recent spate of arson attacks yesterday pleaded with administration officials to do more to stop what they called a "rising tide of racism" against black Americans. This comes as US law enforcement officials announced they were holding three white men and a white juvenile in connection with recent burnings.

Two more churches were set ablaze on Sunday night in Texas. This took past 80 the number of the black places of worship burned, bombed or vandalised across the southern US since 1980, the pastors said. Five officials investigating the Texas blazes said they believed these were "acts of local vandals" unrelated to other southern arson attacks.

The black churchmen welcomed news of the arrests, but complained that the Federal Bureau of Investigation and the Treasury's Bureau of Alcohol, Tobacco and Firearms, the two federal entities charged with investigating the attacks, had not done enough to pursue white supremacist groups believed to be involved in the violence.

In separate meetings with

Ms Janet Reno, attorney-general, and Mr Robert Rubin, Treasury secretary, they claimed that federal agents were ignoring a racist conspiracy against black churches, focusing instead on investigating the black pastors and congregations.

They said black clergymen had been forced to take polygraph tests and congregation members had been intimidated and harassed in an attempt to blame the violence on internal divisions at the churches.

After meeting the ministers, Mr Rubin said the administration was concerned about complaints that federal investigators had acted improperly. "I have no doubt there have been instances of insensitivity," he said, adding that the administration would work to win the trust of the black community.

"We will not be satisfied until [all] arson cases are solved and the perpetrators brought to justice," Mr Rubin said, echoing similar assurances at the weekend by President Bill Clinton and Ms Reno. Mr Clinton made church burning the subject of his weekly national radio address at the weekend, trying to demonstrate his concern for an issue which is raising high passion in the black community.

Reforming Cuba builds a banking system

It is still under the state, writes Pascal Fletcher, but is shaped by the island's changing financial needs

Discreetly, without fanfare, Cuba is putting its banking and financial sector through a modernising revolution.

The reforms stop short of privatisation but they are the biggest structural changes to the sector since the sweeping nationalisations of private and foreign banks that followed the 1959 revolution.

The establishment last month of a new Cuban bank, Banco Metropolitano, is the latest creation in a new configuration of national banking and finance institutions, many already in place. These include commercial and investment banks, a currency exchange network and a finance company.

This expanded banking structure is designed to serve the needs of the new-look Cuban economy, which now includes foreign companies and investment ventures. In addition, de-centralising reforms introduced since 1990 have created dozens of semi-autonomous state firms dealing in convertible currency, a fledgling private sector of self-employed workers and a whole new generation of co-operative farms.

All of these have generated demand for wider banking and financial skills. "The idea is

that we should be able to offer the range of banking services which exist in most countries," said Mr José Julio Rodríguez, who until recently was vice-president at the central bank, Banco Nacional de Cuba. Now he heads the newly-created Grupo Nueva Banca.

Only five or six joint ventures by Cuban and foreign companies use property that was US-owned at the time of nationalisation, Mr Ibrahim Ferradás, Cuban foreign investment minister said yesterday, writes Stephen Fidler.

He was in London answering questions about the effect of the US Helms-Burton Act, which aims to punish foreign companies doing business in Cuba.

Unless the US president uses his power to waive a clause in the law, Helms-Burton allows US citizens to sue foreign

companies "trafficking" in confiscated property in Cuba, regardless of when they became citizens. In practice, however, during a two-year period, only those who were US nationals at the time of the confiscation may sue. Mr Ferradás said yesterday that many more ventures involved property confiscated from Cubans who later became US citizens.

Mr Ferradás is the second Cuban official in two weeks to visit London. Last week, Vice-President Carlos Lage was there during a secretive week-long tour of

banks, on issuing currency, helping implement economic policy and overseeing the banking system.

Banco Metropolitano is the reincarnation of the central bank's old International Branch 9678, which specialised in providing convertible cur-

Other new institutions already in place under the Grupo Nueva Banca umbrella include a commercial bank, the Banco Internacional de Comercio (Banco), established in 1994, the more recent Financiera Nacional (Finna), which will offer mainly short-term financial services through branches across the island previously operated by the BNC. Corporate and personal loans will also be available from the 600 branches of the Banco Popular de Ahorro, an existing state savings bank set up in 1984.

Also planned are a company to administer assets and investments and, later, new insurance entities.

Mr Soberón, who brings to his job experience in international finance and shipping, is a believer in a cautious approach and in suiting the reforms to Cuba's needs.

Since taking office, he has travelled widely and met central bankers from across the world to learn from their experience. He likes to quote that he gets offered "more advice than money".

Cuba's cautious approach is reflected in the government's attitude to foreign banks. Nearly a dozen overseas banks, mostly from Spain, Canada, the Netherlands and France, have representative offices in Cuba.

But the authorities, citing the need to develop and strengthen the Cuban banking sector first, have said they do not foresee the authorisation of full foreign bank branches in the near future.

European countries to discuss the US law. Diplomats said Mr Lage's itinerary had included meetings in Germany with Mercedes-Benz, which has a growing business selling vehicle engines to Cuba, in Italy with the telephone company Stet, and in London at the Trade and Industry Department.

Mr Ferradás, who will also visit Spain, said foreign investors were urging the Cuban government to accelerate foreign investment approvals. Officially, 290 such ventures have been approved.

Bank officials said Banco Metropolitano would offer currency and deposit account facilities to Cubans and foreigners, as well as other "retail banking" services, such as the possibility of investing funds in overseas financial markets. The new bank's president is Mr Ernesto Medina, also formerly a senior BNC official.

ing to companies in Cuba, and a growing network of foreign exchange outlets run by Casas de Cambio (Cadets).

A Cuban investment bank, Banco de Inversiones, is due to come into being next month. Its aim will be to support investment on the island by providing "medium- and long-term financing for projects, as well as offering investment advice."

Among other entities planned is an agro-industrial and commercial bank, which will offer loans and other com-

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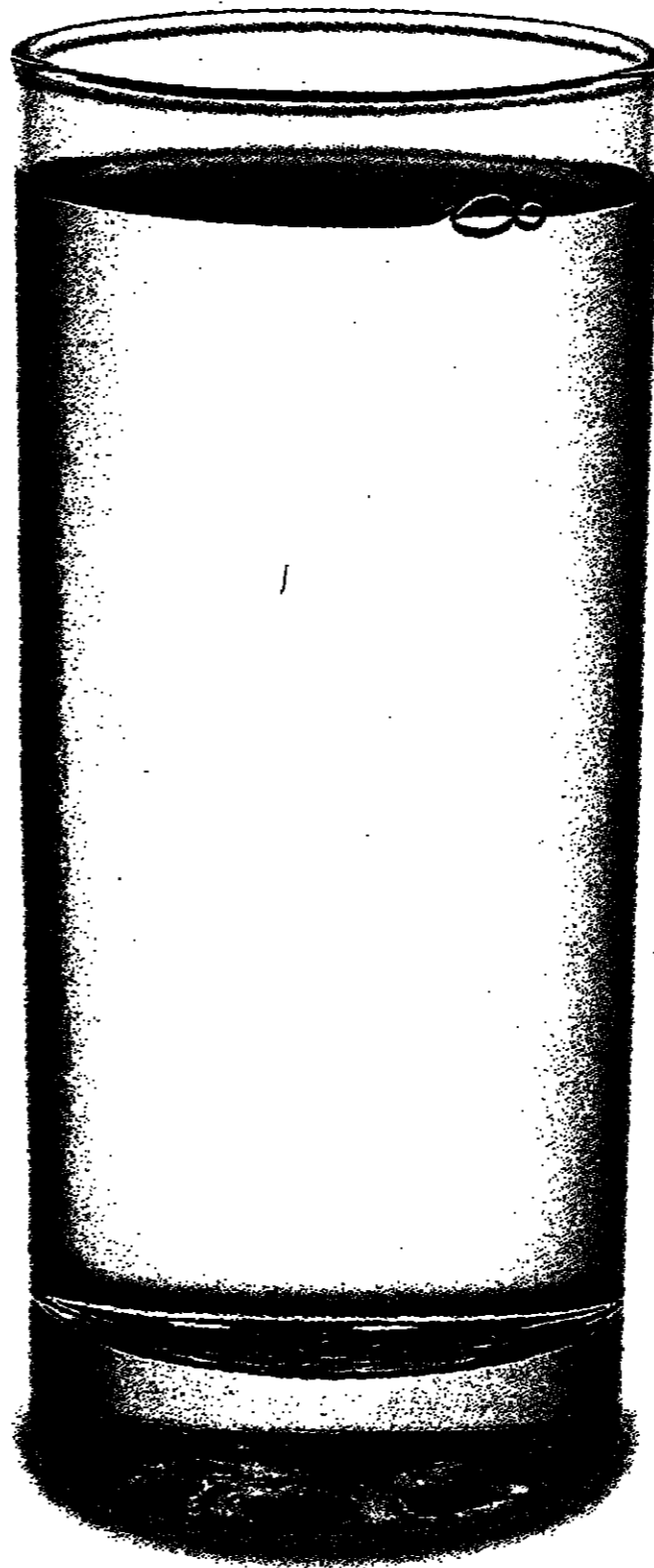
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The United States Environmental Protection Agency recently conducted a major review of studies on the risks of second-hand tobacco smoke to non-smokers. These studies typically involve non-smokers living with smokers over a long period, such as 20 years.

And this review put the risk of lung cancer from second-hand tobacco smoke at a level well below the risk reported by other studies for many everyday items and activities.

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Associated with reduced risk

Everyday Activities	Reported Relative Risk*	Reported Health Effect	Scientific Study Reference
Diet highest in saturated fat	6.14	Lung cancer	Journal of the National Cancer Institute, Vol. 85, p.1906 (1993)
Non-vegetarian v vegetarian diet	3.08	Heart disease	American Journal of Clinical Nutrition, Vol. 31, p. S191 (1978)
Frequently cooking with rapeseed oil	2.80	Lung cancer	International Journal of Cancer, Vol. 40, p. 604 (1987)
Drinking 1-2 glasses of whole milk per day	1.62	Lung cancer	International Journal of Cancer, Vol. 43, p. 608 (1989)
Eating one biscuit a day	1.49	Heart disease	Lancet, Vol. 341, p. 581 (1993)
Drinking chlorinated water	1.38	Lung cancer	American Journal of Public Health, Vol. 82, p. 955 (1992)
Eating pepper frequently	1.30	Mortality	American Journal of Epidemiology, Vol. 119, p. 775 (1984)
Exposure to second-hand tobacco smoke	1.19	Lung cancer	U.S. Environmental Protection Agency (1992)
High vegetable diet	0.37	Lung cancer	International Journal of Epidemiology, Vol. 25, Suppl.1, p. 32 (1996)
High fruit diet	0.31	Lung cancer	American Journal of Epidemiology, Vol. 133, p. 683 (1991)

*Relative risk measures how much consuming, or being exposed to something, raises or lowers risk.

Philip Morris Europe S.A.

Second-hand tobacco smoke. Let's keep a sense of perspective.

There's a new symbol for a more productive way of working. You'll find it on the New York and London stock exchanges.

EDS, formerly part of GM, is now listed on the New York and London stock exchanges as EDS. We are a worldwide leader in helping businesses, governments and individuals use information and technology to become more productive.

Our revenues have grown to be over 12 billion dollars today.

Clearly, helping our customers improve their performance has helped improve our own.

The strengths of EDS have always been speed, responsiveness and agility. It's what separates us from our competitors.

As an example, the recent acquisition of A.T. Kearney, a top management consulting firm, has greatly enhanced our capabilities and made us one of the world's leading consulting firms.

And, as a free-standing company, our ability to form new alliances and launch new ventures will be increased.

Moreover, we will be even more agile, more able to respond to our customers' changing needs as they compete in a global market.

All of this will allow us to better serve our growing list of over 9,000 customers in 41 countries. This list, we're proud to say, includes GM, one of our most valued customers.

To find out more about our expanded capabilities, contact us at 00-44-181-754-4753, e-mail us at info@eds.com, or visit us at <http://www.eds.com>. We'll show you how we collaborate with our customers to use information and technology to become more productive.



A more productive way of working.

Stock is traded under the symbol EDS on both the New York and London stock exchanges. EDS is a registered trademark of Electronic Data Systems Corporation.

TECHNOLOGY



BEHIND THE NET

"Infoterrorists" tap into computer networks to cut off electricity supplies in New York and Los Angeles. Hackers disrupt communications among US military bases. Tax and social security records are mysteriously changed while electronic fund transfers between banks go astray.

These are not scenarios from the script of a Hollywood cyber-flick. They are the basis of serious "war game" exercises conducted by western military, law enforcement and intelligence officials as they explore the potential risks of "information warfare" and develop counter-measures.

Twenty-six years after the US Defence Department created the Internet as a communications system invulnerable even to a nuclear attack, the global web of computer networks is itself now viewed as a national security risk.

The increasing dependency of government agencies and businesses on networks of computers that support critical functions such as banking, communications, air traffic control and law enforcement, together with the rapid growth of international access to the Internet, has created new and substantial vulnerabilities, senior US intelligence officials maintain.

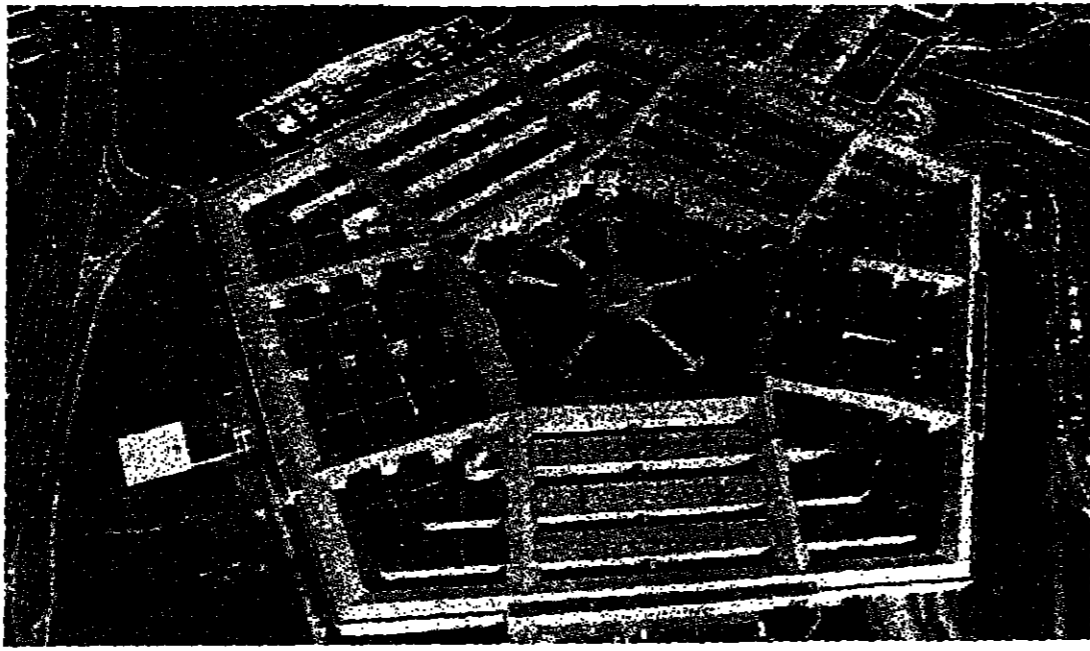
Until recently, the concept of "information warfare" has been widely dismissed as alarmist rhetoric and viewed as "post Cold War hysteria" generated by those with an interest in maintaining the vast US intelligence apparatus. But the potential use of computer networks to undermine public confidence, disrupt essential services, play havoc with the economy or damage military capabilities is now being taken seriously in Washington.

Potential adversaries of the US in 120 countries are gathering information via the Internet about US Defence Department computer networks and developing methods of launching untraceable attacks to disable or compromise them, according to the US National Security Agency.

"We are rapidly getting to the point where we could conduct warfare by dumping the economic affairs of a nation [via computer networks]," US Senator John Glenn said last week in response to testimony before a hearing on cyber security.

A series of hearings of the US Senate government affairs subcommittee on investigations is shedding new light on the secretive world of cyberespies and hackers and is expanding public debate about regulation and policing of the Internet.

According to computer security experts, the Internet has increased



Hackers' target raids on computers at the US Pentagon are at best a costly nuisance and at worst a threat to national security

Washington is worried that dependence on computers may become a security threat, says Louise Kehoe

US squares up to cyberterrorists

security risks not only because it links tens of thousands of computers but also because it has spawned widespread knowledge and interest in computer communications. By establishing standards for computer links, the Internet has provided would-be computer attackers with a standard target.

Banks' computer networks which are used to transfer billions of dollars every day have, for example, typically been based on a mix of old and new communications protocols and computer operating systems. Knowledge of how these networks operate has been limited to a few technical experts, most of them bank employees. This is "security through obscurity" says the chief technology officer of one large US bank.

But as banks convert their systems to modern Internet standards, the number of hackers capable of attacking these networks is expanding.

The potential for disaster may be huge. The vast majority of transactions conducted by banks now flow through computer networks. By one

estimate, more than \$3,000bn (£1,315bn) is moved via international wire transfers every day.

Similarly, the US air traffic control system is based on outdated - and sometimes unreliable - computers. This, however, makes them relatively invulnerable to intrusion. When the Federal Aviation Administration upgrades the systems, as planned, "they will become more vulnerable", says Dan Gelber, counsel to the Senate subcommittee, who led an eight-month investigation of computer security issues.

Yet the scope of possible threats posed by computer attacks remains difficult to measure, the Senate staff found. Even within most US government departments there are few reports of computer break-ins and therefore few records of how often computer networks are attacked and to what effect, says Gelber.

Data from a report published last month by the General Accounting Office, the investigative agency of the US Congress, suggests that Pentagon computers are a frequent tar-

get of hackers. "Hackers have stolen and destroyed sensitive data and software. They have installed 'back doors' into computer systems which allow them to surreptitiously regain entry. They have crashed entire systems and networks," says Jack Brock, a GAO director. "At a minimum these attacks are a multimillion-dollar nuisance to Defence. At worst, they are a serious threat to national security."

Defence Department computers containing non-classified but sensitive data were attacked approximately 250,000 times last year according to the Defence Information Systems Agency, a Pentagon computer security force. In an estimated 160,000 of these incidents, hackers succeeded in penetrating the computers. DISA performs "Red Teaming" attacks on Defence Department computers, using hacker techniques, to test their vulnerability. Of 38,000 attacks conducted over the past three years, 65 per cent were successful. But only one out of every 150 successful attacks was detected and reported.

Assessing the risks of hacking in the corporate arena is even more difficult, largely because the attacks are almost always undetected and because companies are reluctant to admit that they have been victims of computer break-ins.

A survey conducted by a few leading US computer security consultancies found losses of \$300m worldwide last year among clients in the banking and telecommunications industries, with half the losses in the US.

Yet FBI records show only one incident in which a US bank lost money due to a computer intrusion - the much publicised 1994 attack on Citibank's cash management network by Russian hackers who are alleged to have stolen about \$400,000.

The lack of solid evidence of computer security breaches presents a tricky problem for US lawmakers. "Without reliable threat assessment data we can neither conduct meaningful risk management, nor structure a coherent national response to this issue," says Senator Sam Nunn, the ranking minority member of the investigations subcommittee, who initiated the current hearings.

There is mounting pressure on Congress to strike a new balance between the rights of individuals and companies to maintain privacy versus national security concerns.

This promises to be a fractious debate. The Clinton administration is already in conflict with software producers who want relaxation of export controls on encryption software. US intelligence agencies want to be able to conduct "wiretaps" on computer communications to catch criminals and terrorists, while businesses say they need encryption to protect electronic commerce.

Encryption may be just one of many battlegrounds - others include: proposals for mandatory reporting of corporate computer intrusions and for exceptions to US laws that prohibit intelligence agencies from snooping on domestic communications; the forthcoming ruling by US courts on free speech on the Internet, in response to laws aimed at stopping distribution of pornographic material; and possible limits on information that marketers may gather and use about children who surf the Internet. Also, the Clinton administration is planning a rapid-response team to take charge in the event of a cyberterrorist attack.

The net result may be a taming of the "Wild West" culture of the Internet. But it is not certain whether such measures will improve security or simply create new challenges for determined hackers.

Previous articles in this series on the Internet appeared on April 6 and May 7.

Green light on the Internet

Tom Foremski reports on new software to reduce traffic jams

The trouble with surfing on the Internet is that it can take a long time to get to the information you want. Once you find a web site, you often have to click through several levels to find the web page you are looking for.

In a bid to make web surfing more efficient, California-based NetCarta says it has come up with a unique product that can cut the time users spend on-line and allow them to find the web pages they want more quickly.

NetCarta's CyberPilot Pro uses maps of web sites that users can browse through off-line and then connect directly to web pages of interest.

It is an example of a wave of second-generation Internet software that helps users find information, reducing traffic jams on the Net. These products include off-line web browsers that automatically download web pages for users to view at a later time. Examples of off-line web browsers are FreeLoader from the US company of the same name and WebWhacker from Texas-based ForeFront Group.

"CyberPilot Pro is a great way to surf the net," says Laurent Seraphin, a project manager at US software developer Softway. "Instead of 20 to 30 clicks to get where you want to go, I can see my destination on a NetCarta map. It is a far more efficient way of surfing and saves me a lot of time."

CyberPilot Pro is a Windows 95-based program that creates a map of a web site. It lists what kind of documents are available: text, graphics, audio and video files on a web site. Clicking on part of the map activates the user's web browser, such as Netscape Navigator, and takes the user directly to that web page.

"Internet users can save a lot of time because they get to the web page they want much more quickly. If you spend an hour on the Internet per day you can save 30 to 50 minutes," claims Tom Tansy, a co-founder of NetCarta.

A key feature of CyberPilot Pro is the ability to unleash a personal "spider" on to a web

site. Spiders are automatic programs used by the large Internet search services such as InfoSeek, AltaVista and Lycos. They roam the Internet, seeking out web sites and cataloging everything they find. That catalogue is then included in a database that helps Internet users find topics of interest.

"We're the first company to come out with a personal spider that is well behaved and obeys all the robot protocols, and makes it difficult for the end user to create mischief on the Internet," says Tansy.

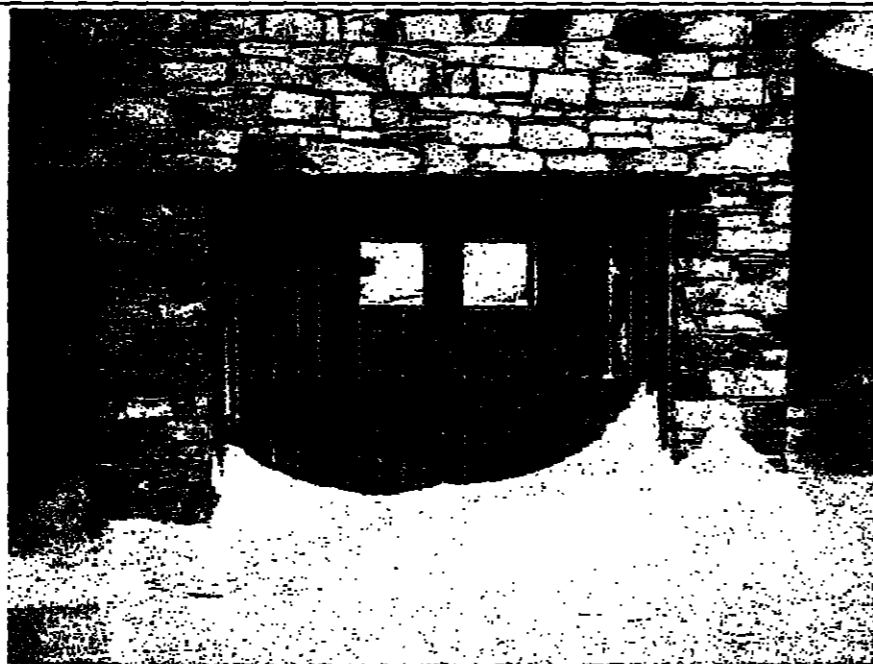
But spiders are not popular among web masters, who complain that there are already too many roaming the Internet. "The mischief that could be caused is that somebody could unleash a spider on a site and bring it to its knees potentially, by tying up access. So we've gone to great lengths to make sure that people cannot do that," says Tansy.

Web masters can prevent a CyberPilot Pro spider from cataloging their web site by posting a NetCarta WebMap. When a CyberPilot Pro spider finds a WebMap, it suspends its operation and downloads the map.

CyberPilot Pro was created as a spin-off from NetCarta's web site development tools. "When we were showing our web tools last year, some people pointed out that it would be a great way to surf the Internet and that's how CyberPilot Pro was developed," says Tansy.

CyberPilot Pro is available as a free evaluation version from NetCarta's web site at <http://www.netcarta.com>. Users will be asked to pay \$99 (\$59) if they want to continue using the program. A Macintosh version will be available by mid-year.

With Internet users accustomed to free applications, such as Microsoft Explorer web browsers, will they pay for CyberPilot Pro? Tansy thinks they will: "Serious users, people that have serious jobs to do, absolutely. Otherwise how are we to stay in business?"

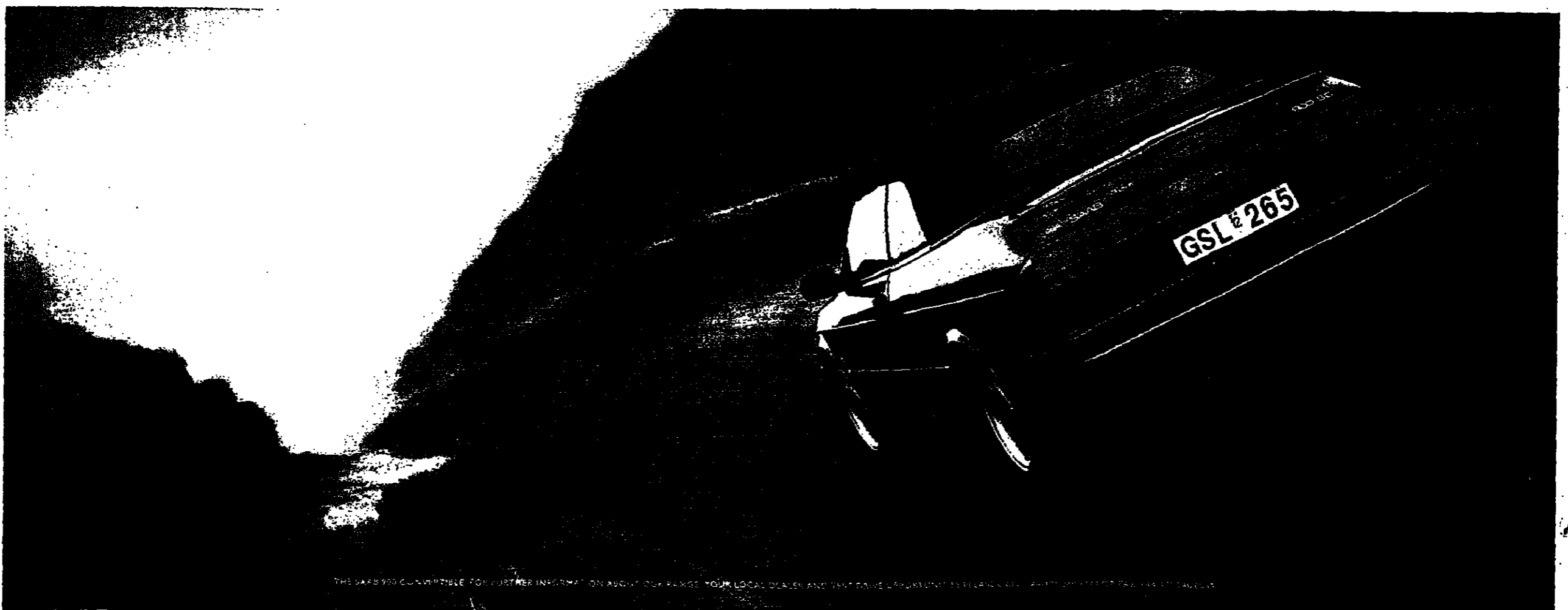


Most convertibles spend nine months of the year in jail.
Not the Saab.



SAAB
beyond the conventional

Here in Sweden, we don't enjoy endless sunny summers. Rather the opposite. So for year-round pleasure with our new convertible, we added a quick fully automatic top with tight fit, triple insulation, a glass rear-window with defogger, a superior heating system and roadhandling that gives a firm grip on slippery roads. We are sure you'll also appreciate it in warmer climates for its solid soundproofing and good looks - even with the top up.



COMMENT & ANALYSIS



Martin Wolf

Japan looks to Asia

The US has forcefully demanded more open markets and smaller current account surpluses from the Japanese. They may come to regret their growing success

The principal US theme in its discourse with Japan over many years has been the latter's failure to live up to its international responsibilities.

Will the US enjoy the results? Probably not. First, it will lose the funds supplied by its most generous creditor.

According to Asia Pacific Profiles 1996, from the Asia Pacific Economic Group of the Australian National University in Canberra, the current account balance of east Asia as a whole will shrink from \$130.3bn in 1994 to \$106.5bn in 1995 and a mere \$73.2bn this year.

Is the US grateful to Japan for financing the arms build-up of the 1980s and the investment of the 1990s? Far from it. Yet it is difficult to identify the harm Japanese capital exports have done the US.

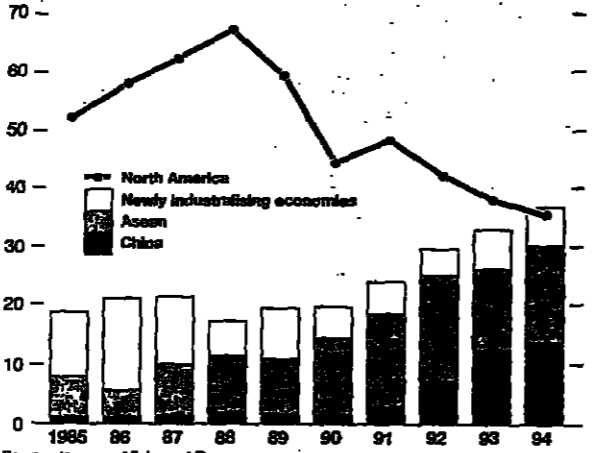
the dollar last April, the losses soared to \$720bn. Such huge losses are unlikely to be repeated, partly because the yen-dollar exchange rate is trading in a more realistic range.

What is significant about the fall in Japanese external surpluses is that it is not the result of unsustainable growth in demand, as was the case in the 1980-90 bubble years - when the current account surplus shrank, from 4 per cent to 1.5 per cent of GDP.

The shrinkage of the current account surplus has been driven, instead, by the real appreciation of the yen. As the Bank for International Settlements notes in its annual report: "Since the recession started in 1991, the total volume of imported goods and services has increased by almost 35 per cent even though domestic demand has grown by only 2.5 per cent."

The lure of east Asia

Japanese foreign direct investment in manufacturing, by destination (% of total)



Source: Japanese Ministry of Finance

Japan were to sustain reasonably rapid growth in aggregate demand - a big if, for reasons explained in this column last week - the surplus might melt away, even at the present exchange rate.

As a matter of economic logic, a current account surplus can shrink only if aggregate output falls more (or grows less) than aggregate demand. That is precisely what the appreciation of the yen has delivered.

The metaphor once used by Japanese economists to describe the development of the entire east Asian region is that of a flock of flying geese, with Japan at the head.

As investment has been attracted towards east Asia, so has trade. Sixty-one per cent of the increase in Japan's exports between 1985 and 1995 went to east Asian markets.

In 1995, by contrast, 40 per cent of Japanese exports went to these economies and 37 per cent of its imports originated within them. Japan's trade with the rest of east Asia is almost as large as its trade with the US and European Union combined.

The share of manufactures in total Japanese imports also rose to 60 per cent in 1995, from about 25 per cent a decade before. More than 40 per cent of Japan's manufactured imports come from east Asian economies.

behemoths - Indonesia and, above all, China.

Japanese foreign direct investment is playing a central role in the smooth transition of comparative advantage among the dynamic east Asian economies.

The reason for the change in direction seems clear. According to admittedly imperfect data from Japan's Ministry of International Trade and Industry, foreign direct investment in Asian manufacturing has risen as fast as in North America or Europe.

As investment has been attracted towards east Asia, so has trade. Sixty-one per cent of the increase in Japan's exports between 1985 and 1995 went to east Asian markets.

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of the hair-dryers, 30 per cent of the copying machines and 28 per cent of the video-cassette recorders bought in Japan were imported, mostly from east Asia.

Japanese foreign direct investment is also increasingly directed not at exports outside the region, but at consumption within it.

The pace of change in the Japanese economy must not be exaggerated, even though the direction is significant.

Six years after the European Union's establishment of directives on biotechnology, its member countries continue to struggle with their implementation.

How well will it adjust? The Japanese will have to answer some big questions. One is whether to promote a yen bloc. Another is how large (or small) a proportion of the domestic labour force can be credibly offered lifetime employment.

Personal View • Henry I. Miller

Left standing by the agricultural revolution

The European Union should revise its heavy-handed regulation of the biotech industry

Biotechnology applied to agriculture is beginning to yield all manner of products including fruits and vegetables that are disease-resistant, more nutritious and can grow with less chemicals.

George Orwell was right to say it requires a constant struggle to see what is in front of one's nose - a struggle that the European environmentalists have been losing.

Although they have now removed some field trials from the regulatory net, the EU's approach - subjecting products to regulation on the basis of the technique used to produce them - is flawed.

And the rules markedly increase the costs, the paperwork and the time required for research. This is a particular impediment in agriculture, where profit margins are slim-

mer than in pharmaceuticals.

Groups from the US Congress's research organisation to the British journal Nature have condemned the EU approach.

By contrast, plants with similar or identical traits that were created with less precise techniques, such as hybridisation or mutagenesis (treatment by radiation or chemicals to induce mutations), are subject to no government scrutiny - and no publicity.

Although they have now removed some field trials from the regulatory net, the EU's approach - subjecting products to regulation on the basis of the technique used to produce them - is flawed.

European parliamentarians and regulators have recently begun to taste the bitter fruits of what they have sown. Several hundred people attended a biotechnology "brainstorming" session in Brussels in January.

European Commission and the European parliament.

The data presented were ominous, indicating that the US enjoys a substantive lead over Europe in the total number of biotechnology companies (1,300 versus 485), biotechnology patents (65 per cent versus 15 per cent of the world total) and annual biotech research and development expenditure (\$2.7bn versus \$2.2bn).

But those attending were unable - or unwilling - to make the connection between Europe's regressive, stultifying regulatory policies and diminished R&D.

The correct path is by no means obscure. A revised regulatory regime that requires case-by-case oversight only for organisms that might pose significant risk would have several advantages.

The author is Robert Wesson fellow of scientific philosophy and public policy at the Hoover Institution and a consulting professor at Stanford University's Institute for International Studies.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5838 (please set fax to 'fine'). e-mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

BA/American Airlines alliance merits probe

From Mr Richard Branson. Sir, In his analysis of the proposed alliance between British Airways and American Airlines ("In search of fair skies over the Atlantic", June 7) Michael Skapinker points out that the agreement will almost certainly require anti-trust immunity from the US authorities.

allowed to operate in this way. My second point is that, despite acknowledged shortcomings in the US approach, at least there the debate will be held in public.

As to whether this alliance should be approved, I can do no better than quote BA's own chief executive, Robert Ayling, when objecting to an application by Lufthansa and United Airlines for immunity for their alliance from the US anti-trust laws similar to the one that he is now contemplating.

United flew less than 14 per cent of all scheduled flights between Europe and the US. BA and American flew more than 28 per cent. If Robert Ayling thought a tie-up between Lufthansa and United so objectionable I would be interested to hear why he thinks a BA/American alliance should be waved through by either the UK or the US authorities without a thorough investigation.

Hang on to money supply

From Sir James Pickthorn. Sir, Mr Roland Soward (Letters, May 29) mocks the fall in the value of the pound from 1983, declaring triumphantly: "So much for British national sovereignty over monetary policy."

really thinks UK governments are not capable of running the money supply, then perhaps he has some ground for argument, but I believe most British people still prefer the economy to be run from Westminster.

No denying this competition

From Prof Stéphane Garelli. Sir, In his article "Clear thinking muddled by competitiveness" (June 7), John Kay falls in the trap laid for him by Paul Krugman and states: "Competitiveness is a characteristic of firms, not of countries..."

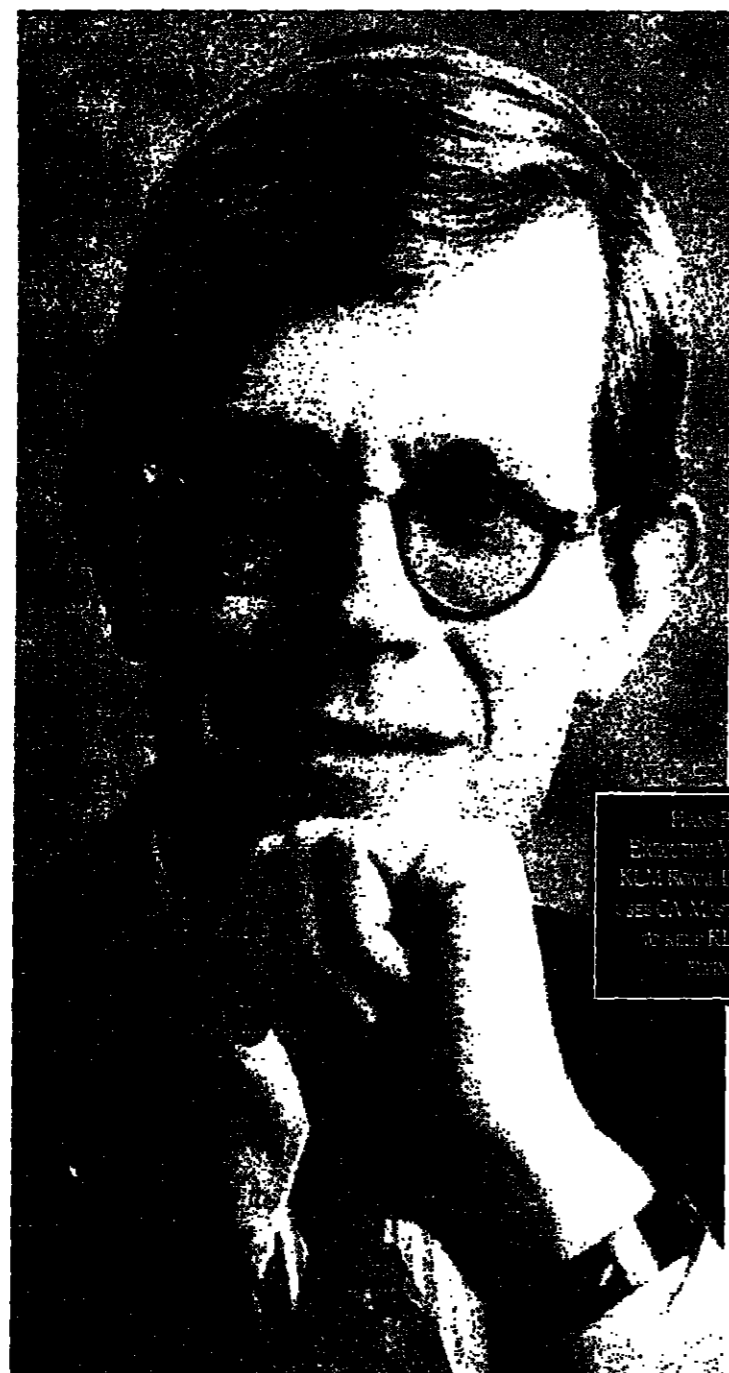
national income, it is indeed simpler, but also simplistic. For example, two individuals can have equal incomes, the first enjoying revenues from a capital inherited from his parents, the second from his hard work.

Short shrift for job poaching

From Mr Roger Freeman. Sir, With regard to your concerns on the implications of job poaching among international investment banks and the need for market discipline ("Poaching bankers", June 8); is that not why God

invented the ability to short the shares of these institutions? Roger Freeman, Brookfield House, 108 Highgate West Hill, London N6 6AP, UK

Software Flyer.



The airline business is one of the most competitive on earth. So to ensure their continued success, KLM Royal Dutch Airlines brought Computer Associates onboard.

With CA, KLM can take advantage of the world's most advanced client/server financial software: CA-Masterpiece/2000.

As Executive Vice President and Corporate Controller, Hans Bruggink says, "KLM is an international business with offices all over the globe. So we needed financial software that was multi-language and multi-currency. In both cases, Masterpiece fit the bill"

What's more, Bruggink appreciates the fact that Masterpiece operates in "real-time", giving his staff immediate access to the information they need right from their PCs.

Perhaps best of all, Bruggink says, CA and KLM worked together to customise Masterpiece to precisely fit their needs: "CA made sure they had

all the input they needed to tailor Masterpiece to our specific requirements. And they continue to refine the software to keep up with the new demands of our business."

Sounds like a good partnership. "Flying sky high," says Bruggink. Spoken like a true airline executive.



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FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Tuesday June 11 1996

Russia the morning after

Nary a vote has been cast in Russia's presidential election but Boris Yeltsin's fans among western investors are already weaving signs of relief. Six months ago, most were steeled themselves to put up with any amount of wayward behaviour by Mr Yeltsin the campaigner if it helped deliver a long-term victory for Mr Yeltsin the reformer.

Silly bill

Scores of Conservative MPs may today vote for a referendum on the UK's future in a referendum bill tabled in the House of Commons by Mr William Cash, a prominent Eurosceptic, proposes that the electorate be asked whether the government should "insist on irreversible changes in the treaty on European Union".

Bribe or subsidy?

When does an incentive to bring jobs to a deprived area become a bribe? Answer, if somebody else is doing it. And when everybody does it, defensible subsidies become swamped in a welter of competing inducements.

A friendlier face to the world

The Chinese premier tells Tony Walker, Peter Montagnon and John Ridding of his desire for better international relations

Mr Li Peng, the Chinese premier, cannot be accused of underselling China's growing economic and political weight. In a lengthy interview with the Financial Times, he provided a blunt assertion of Chinese self-interest by warning US companies that they will lose ground to their European counterparts because of "more lenient" views in Europe towards his country.

FT Interview · Li Peng



A softer line on Hong Kong

bet economy. We think the market plays a fundamental role in the allocation of resources but in China, a socialist country, the fundamental role played by the market can only be brought into full play under the government's macro-economic regulation and control.

territory's legislature. Chinese officials have hinted that they do not want the governor to play a prominent role in the handover ceremony. But Mr Li said simply that Mr Patten's participation was a matter for the UK government.

OBSERVER

Alternative medicine

Deutsche Bank last week spent another DM550m to bail out the German engineering group Klockner-Humboldt-Deutz, the second time it has spent that sort of money in as many years.

Leeson mark 2

What a difference nine months makes. The BBC documentary tomorrow night, "Nick Leeson and the fall of the house of Barings", gives an altogether harsher picture of the trader than did Sir David Frost's interview in September.

No I don't

Timothy Stamps, Zimbabwe's white health minister, is jolly keen on the institution of marriage as part of his Aids awareness campaign. But not so keen that he wanted to go through with it twice himself - which is what it seems he may now have done.

England-free zone

John Major's war against Europe is not making the English as unpopular as some people might think. Merchandise emblazoned with the Euro 96 football championship logo, which includes in large letters the word "England", has been selling well in continental Europe despite the government's best war with its European partners.

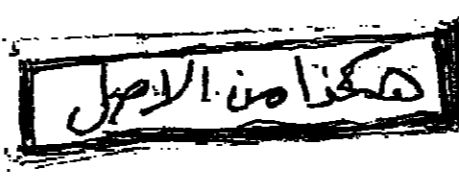
Financial Times

100 years ago

Amazon Steam Navigation The report of the directors of the Amazon Steam Navigation Company, to be presented at the general meeting in London, states that, after making adequate provision for depreciation in the company's fleet the available balance including £26,751 brought forward, is £36,011.

50 years ago

Railway Mission to Argentina The Financial Times learns that an important British mission headed by a prominent public figure is leaving shortly for the Argentine. The main purpose of the mission is understood to be discussion with the Argentine Government of the future of British-owned railways in Argentina.



LEGAL DEFINITIONS

lobby n. 1 place where MP's throw things cap. tribunals, committees etc. 2 endeavour to influence politicians and civil servants to promote a particular viewpoint. see BORE & MAN: soap (p4 0171-248 4282)

Rowe & Maw LAYERS FOR BUSINESS

EU ministers press UK to drop beef ban tactics

By Caroline Fitzhugh and Lionel Barber in Luxembourg and Robert Peston in London

Mr Malcolm Rifkind, the UK foreign secretary, faced sharp criticism from fellow European Union foreign ministers yesterday as Britain came under mounting pressure to abandon its blocking tactics in the beef crisis.

on UK beef exports. A ban on British beef exports worldwide was imposed after possible links were disclosed between BSE, or mad cow disease, and its human equivalent, Creutzfeldt-Jakob disease.

ban based on agreed scientific criteria, coupled with an undertaking that member states will not block enforcement for political reasons.

Japanese store chief may quit in payments scandal

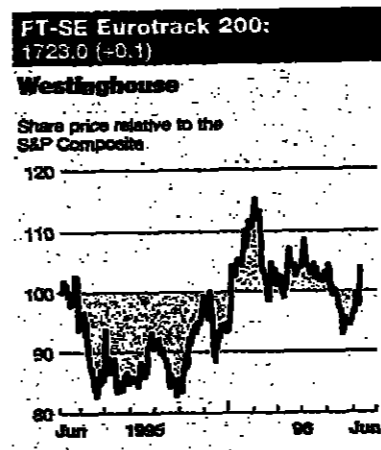
By William Dawkins in Tokyo

The president of Takashimaya, Japan's largest and oldest department store, is considering resigning over allegations that the company paid racketeers not to disrupt shareholders' meetings.

Westinghouse's make-over

THE LEX COLUMN

Westinghouse Electric's announcement that it may split its media and industrial businesses is the latest attempt by Mr Michael Jordan, its chairman, at turnaround-by-financial-engineering.



Source: FT Index

By spinning off the media division, Mr Jordan will effectively be constructing a fire wall. The share price should benefit: the merger of Westinghouse's Group W broadcasting subsidiary with CBS's stations does appear to be adding some value, and the split would liberate the media business from the overhang of group debt.

only long-term worry, just as fundamental is the fog surrounding management strategy. The "strategy" in the prospectus is little more than a generalised wish-list for reasons at best flimsy, the company is enthusiastic about investing in new power generating businesses across the world.

Semiconductors

Alarm bells are ringing in the semiconductor industry. Manufacturers expected 30 per cent growth in sales by value at the start of 1996, but forecasts have more than halved.

Bomb aimed at Syrian president

Continued from Page 1

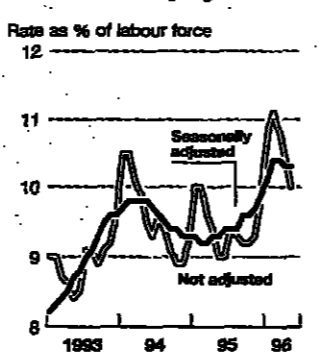
US citizens in Syria to "review their security practices". The Arab sources say that for the past month Mr Assad has been working out of Latakia, the heartland of the minority Alawite sect around which he has built the Syrian regime.

Lower jobless total fails to ease labour crisis in Germany

By Peter Norman in Bonn

Unemployment in Germany fell by just under 150,000 last month, but a smaller-than-expected seasonal adjustment decline showed there is as yet no easing of the country's employment crisis.

German unemployment



Source: Destatrom

Bullish figures last week for April's industrial orders and production triggered hopes that Germany might be pulling out of its economic trough. But according to Mr Holger Fahrnkirg, an economist with investment bank UBS in Frankfurt, yesterday's jobs data, which upset expectations of a 15,000 drop in seasonally adjusted unemployment, showed "the economic upswing is still fragile".

CBS owner

Continued from Page 1

industrial businesses recover their investment-grade credit rating, the group's executives said. Westinghouse was relegated to junk-bond status at the time of the CBS acquisition, reflecting the heavy debt it assumed to make the purchase.

Nuclear privatisation

Go to a closing down sale, and you expect to pick up something cheap. Certainly, the final offering of the British government's great privatisation bazaar - British Energy, the nuclear generator - looks a classic bargain in the making.

Additional Lex comment on

UK pre-emption rights, Page 22

FT WEATHER GUIDE Europe today Most of the British Isles will be rather cloudy with patchy rain. Five-day forecast Thunder showers will continue in France and the Balkan states. TODAY'S TEMPERATURES Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

Yale Yale Security Products a division of WILLIAMS Williams Holdings PLC and Guangdong Guli Locks (Group) Corporation have formed a joint venture in Xiaolan, China Yale-Guli Security Products (Guangdong) Limited 耶魯-固力保安制品(廣東)有限公司 Financial Advisor to Williams Holdings PLC Schrodgers Schrodgers (Shanghai) Financial Advisory Co., Ltd. 施羅德(上海)財務諮詢有限公司

COMPANIES AND FINANCE: EUROPE

AIG leads largest Russia investment fund

By Nicholas Denton in London and John Thornhill in Moscow

American International Group, the US insurance underwriter, together with a group of international investors and a US government agency have joined forces to create the largest fund for investment in the former Soviet Union.

The investors - which include Mr Hans Rausing, the former chairman of Tetra Laval, as well as mainstream US pension funds - had committed \$181m by last Friday. The fund is expected to raise \$300m.

The fund - the Millennium Fund - has been successfully placed despite the political uncertainty in the run-up to Russian presidential elections on Sunday. It already surpasses the First NIS Regional Fund, for which ING Barings raised \$180m.

The fund's popularity owes much to a guarantee from the Overseas Private Investment Corporation, the US government agency mandated to promote the private sector in regions like the former Soviet Union. OPI, which will receive a fee of 0.56 per cent a year as well as a deferred fee of 5 per



Confident in Russia: former Tetra Laval chairman Hans Rausing is part of investment team

cent, has guaranteed the principal of investments, thus providing protection from risks such as confiscation.

A subsidiary of AIG has invested \$30m in the Millennium Fund. A division of the Brunswick Group, the largest independent equity broker in Russia, has committed \$30m along with its clients.

The size of Mr Rausing's

investment is not known. However, since liquidating his shareholding in the family business, he has become one of the largest private investors in Russia. Mr Rausing sits on the advisory board of the Millennium Fund.

The fund's primary mandate is to make direct investments in unquoted companies, either alongside industrial investors

or alone, in sectors such as natural resources, infrastructure and consumer industries.

The fund will be managed by the AIG subsidiary, with Brunswick providing research and analysis. Mr Roger Gale, former head of the International Finance Corporation in Moscow, will head the fund.

An increasing number of western investors appear ready

to commit funds to Russia, which has conducted one of the biggest mass privatisation campaigns in history, and finally appears to have achieved financial stabilisation. Moscow-based investment banks predict foreign money will flood into the Russian equity market if President Boris Yeltsin is re-elected. Debt market fund, Page 26

Daimler finance chief is added to investigation

By Wolfgang Münchau in Frankfurt

Stuttgart prosecutors yesterday extended an investigation into last year's loss forecast at Daimler-Benz to Mr Manfred Gentz, the finance director.

The prosecutors' office said yesterday that Mr Gentz was to be questioned about allegations that the company had withheld information about forthcoming losses at last year's annual meeting.

A group of small shareholders has already filed a criminal suit against Mr Ezzard Reuter, the former chairman, Mr Jürgen Schrepp, his successor, and Mr Hilmar Kopper, chairman of Deutsche Bank as well as of Daimler-Benz's supervisory board.

Daimler-Benz yesterday rejected the allegations as being without foundation. The prosecutor's interest in Mr Gentz originates in comments he made at the company's annual meeting last month. Mr Gentz said then that he had been in possession of a document setting out a forecast about the company's six-month losses a day before last year's annual meeting.

But, he said, it had been an internal document based on provisional "unfiltered and untested" data. The document was part of a normal monthly release schedule, detailing the company's exposure to exchange rates and the consequence of exchange rate shifts on earnings. It did not include data that were part of management board discussion.

The investigations against present and former top executives at Daimler-Benz came after a group of small shareholders, critics of the company's management, launched a criminal suit, alleging the company knowingly withheld important information from shareholders.

The company finally issued the loss warning several weeks later, maintaining that it was only then that it had a clear idea of the impact of the weak dollar, one of the main reasons for the sharp decline in operating losses.

NEWS DIGEST

BBV to buy banks from Mexican state

Banco Bilbao Vizcaya, the Spanish bank, is to buy Banca Credi and Banco de Oriente from the Mexican government, the country's National Banking and Securities Commission said yesterday. No price was disclosed. The acquisition, for which BBV has signed a letter of intent, would double the size of Grupo Financiero Probusa, its Mexican subsidiary, which runs the country's 10th-largest bank. BBV raised its stake in Probusa to 70 per cent in May. "BBV is looking for market share and wants to get a critical mass in retail banking," said Mr Alberto Sánchez, banking analyst at Bear Stearns Latin American Equity Research in New York. BBV announced on June 3 its intention to purchase a 40 per cent stake in the Colombian bank Banco Ganadero.

Although BBV is expanding its assets, analysts think it unlikely it will soon begin to lend aggressively in the Mexican market, where new lending is at a low because of continuing financial problems. BBV will be buying the workable assets of the two banks, both of which have failed over the past two years, with the Mexican government retaining overdue loans for itself. Banca Credi has been in the hands of government regulators for almost two years after the flight of its owner, Mr Carlos Cabal Peniche. Daniel Dombey, Mexico City

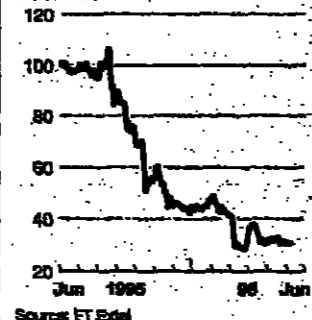
Bayer to invest DM18bn by 2001

Mr Manfred Schneider, chairman of Bayer, the German chemicals group, said the company would invest DM18bn (\$11.7bn) in the next five years, with DM7bn to be invested in Germany and DM11bn abroad. He told the daily Bild Zeitung that 81 per cent of sales were achieved abroad. He was optimistic the company would have a treatment for Alzheimer's disease within three years. AFP News, Frankfurt

Linotype-Hell warns of loss

Linotype-Hell

Share price relative to the Dax index



Source: FT Edm

Linotype-Hell, the troubled German pre-press company, said sales in the first four months fell 6 per cent, while new orders were down 2 per cent. Mr Erwin Koenig, chairman, told the agent the trend continued further in May. The company said first half sales would fall about 9 per cent from a year earlier to DM400m, leading to a loss in the period of more than DM30m. New orders would fall 7 per cent in the first half, while the order backlog would rise DM10m. However, the company expected a more positive second half.

The group said it would report a loss in 1996, after a net loss of DM74.7m a year earlier. AFP News, Eschborn

Consob approves Mediaset plan

Consob, the Italian Bourse authority, said it had approved the prospectus for the initial placement offer of Fininvest's television subsidiary Mediaset. An international investment roadshow is expected to begin in Milan next week. About 20 per cent of Mediaset is expected to be sold, through both a capital increase and the sale of Fininvest's shares, which would lower its stake to below 50 per cent. The price is to be set between L6,000 and L7,200 a share. AFP News, Milan

Well-oiled Elf unit a giant in niche sectors

Atochem successfully mixes specialisation with diversification, writes Jenny Luesby

Elf Atochem, the chemicals arm of Elf Aquitaine, the French oil producer, which will today announce a £100m (\$154.2m) investment in Scotland, is a company built on castor oil. Nylon 11, made from the dark-leaved castor oil plant, is so much more resilient than other plastics, it is compulsory as the coating for lorry brakeliner. Elf Atochem is its only manufacturer.

A product of the French state sector, Atochem has absorbed hundreds of chemical operations during its lifetime - often by edict. But it has been ruthless about disposing of operations it does not want.

As Europe's second-largest plastics producer, behind BASF of Germany, it has retained only two types of businesses: those which add to its range of bulk chemicals, and those which command a colos-

sal share in a niche market.

This fascination with the domination of obscure markets began 50 years ago with the lucrative nylon 11, but by 2000 such products will account for one-third of the group's turnover, says Mr Jacques Paschal, Atochem's chairman.

Analysts are inclined to believe him. Ten years ago, speciality chemicals accounted for one-third of the group's sales. Today they equal one half, and the pace of expansion is accelerating.

Atochem has acquired 17 leading speciality businesses since 1986. It has also picked up clusters of unloved businesses and rebuilt them around a significant research and development programme.

The group is now the largest producer of the glue used in disposable nappies: no mean feat, says vice-president Mr Jean-Bernard Lartigue, when

one considers the difficulties of producing a glue that keeps working when wet, allows moisture through, and never irritates a baby.

It is also a leader in solid fuel for rockets, the raw materials for chicken nutrients, hair-perming fluids and catalysts for electro-plating.

But the company is not only interested in specialities. It will today unveil a 300,000 tonne a year polypropylene plant in Scotland, as part of a joint venture with BP. The French group already dominates the UK market for polystyrene and is a leading PVC supplier. It will now be the country's biggest supplier of polypropylene.

Its commitment to these bulk plastics - notorious for their cyclical - stems from the volume of cash they generate during the good times.

On sales last year of FF7.5bn (\$10.6bn), Atochem reported operating profits of FF5.7bn. The previous year, profits were FF1.8bn. Some FF1.5bn of this improvement was attributed to a brief upturn in the market for commodity plastics.

For Mr Philippe Jaffré, who took over as chairman of Elf Aquitaine in 1993, this bonus only served to increase an interest in chemicals that has grown as the profit margins on oil refining have shrunk.

The chemicals arm generated cash of FF7.6bn last year. In the past, much of this would have been drawn off into the group. Now, Atochem gets the first call on such funds.

It has already boosted its adhesives and electro-plating businesses. Its next priorities are acrylic acid derivatives and sulphur derivatives. It is also expanding regionally. Bulk plastics will remain a Euro-

pean business, says Mr Paschal, but as a speciality chemicals producer, Atochem is going global.

Last year, 36 per cent of sales were in France, 39 per cent elsewhere in Europe, and 25 per cent in America and Asia. By 2000 the company aims to achieve an equal three-way split. Much of this will be through duplicating European businesses elsewhere. Typical are CFC-alternatives. Atochem is one of the top three producers in Europe and America. Its next market will be Asia.

Atochem's earliest foray into the region, decades ago, was as a buyer - it still has castor oil plantations in India and China. The company's development may have been inspired by that early success, but it will return to Asia a far more sophisticated producer than when it arrived.

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New Issue/June 4, 1996



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COMPANIES AND FINANCE: EUROPE

Kirch to unveil details of pay-TV service

By Judy Dempsey in Berlin

Kirch, the German film and entertainment group, will today announce its pricing, marketing and programming strategy in preparation for the launch of its digital pay-TV service, possibly as early as July.

The announcement, to be made in Munich by Das Digital Fernsehen (DF1), the marketing division of the Kirch group, is aimed at convincing viewers and advertisers that Kirch is ready to enter Germany's digital television market well

ahead of the Bertelsmann group, which is developing a competing system.

Bertelsmann and Deutsche Telekom, Germany's state-owned telecoms group, are heading the Multi-Media Betriebsgesellschaft (MMBG) consortium, which includes ARD and ZDF, the two German state television channels. MMBG has been developing the technology for a decoding box, or "D-box", that allows viewers access to a wide variety of pay-per-view services. Bertelsmann said yesterday the system was "going through trials".

Separately from MMBG, Bertelsmann had hoped to capture European audiences through a digital television alliance with Rupert Murdoch's BSkyB and Canal Plus, the French pay-TV group. But the alliance crumbled last week.

Today's announcement by Kirch puts an end - at least for the moment - to attempts by Mr Martin Bangemann, the European Union industry commissioner, to seek agreement on establishing one standard German decoding box following a meeting in Paris at the

weekend. The belief is that two competing systems would split the market, while this would give the consumer choice, it would in fact weaken Germany's - and Europe's - ability to compete with the US.

Although Bertelsmann and Kirch officials have said they might be willing to find a compromise, neither side trusts the other. Since Kirch appears much closer to the launch date, there is a feeling in Munich headquarters that it cannot wait for Bertelsmann.

Kirch's two partners - Vebe- com, the telecommunications

division of Vebe, the German industrial conglomerate, and Metro, Germany's large retailing and discount shopping group - are already in place. They will run the billing, collection, subscription management and sale of the D-boxes.

Even if Kirch launches its digital service before Bertelsmann, both groups still face the same problem: which way Premiere, Germany's only pay-TV channel, will jump. Premiere, owned jointly by Bertelsmann, Canal Plus and Kirch, has 1m subscribers, and is due to break even this year.

Canal Plus lodges bid for control of UGC DA

By Andrew Jack in Paris

Canal Plus, the French pay-TV group, yesterday officially lodged with the stock market authorities a friendly offer to take control of UGC DA, the country's largest broadcasting rights company.

The group is offering one Canal Plus share for every four shares in UGC DA, which values the target at nearly FF2.7bn (\$319.4m), based on the closing value of the stocks at the end of last week.

UGC DA, which is 25 per cent quoted, advised shareholders to participate in the offer. Discussions have already taken place between Canal Plus and the larger investors, which include the parent UGC film group, Paribas, the bank, and Générale des Eaux, the utilities and construction group.

UGC DA, which has a catalogue of 5,000 films, including 2,000 which are non-French, is Europe's second-largest controller of broadcasting rights, after Kirch, the German media group.

Canal Plus has been expanding into audio-visual rights, and already controls some 650 films, including the Cariceo catalogue which it acquired earlier this year for \$290m.

The battle for control of audio-visual rights is becoming increasingly important, as broadcasters seek material for a growing number of terrestrial and satellite stations.

European film rights are particularly important, given that both French and EU regulations require a significant proportion of films broadcast on television to be of European origin.

Canal Plus launched its own digital television service by satellite for France at the end of April, and is part of an alliance with Bertelsmann and Havas which could lead to similar services across Europe.

It has developed its own encryption technology for pay-TV, but has stressed that the real competition is in content, not in technology - where it has expressed willingness to co-operate with rivals.

NEWS DIGEST

Skanska closer to acquiring target

Skanska, the Swedish construction company, said it had bought 29.2 per cent of the shares and 47.8 per cent of voting rights in Skaane Gripen, the building materials group, from Bure AB for SKr500m (\$130.2m).

Skanska said it was also making a public offer of SKr20.50 for each A or B share, and SKr116 for each bonus share. The bid price amounts to a premium of just over 31 per cent for all series of shares over the average share price on the Stockholm Stock Exchange during the past 30 days of trading.

Midway Holding, which holds 6.8 per cent of the votes and 6.2 per cent of the capital in Skaane Gripen, has said it will accept the bid, according to Skanska. The company said the offer was conditional on it being tendered more than 90 per cent of Skaane Gripen's share capital and voting rights, although it reserved the right to complete the offer at a lower level of acceptance.

AFX News, Stockholm

Raisio aims to match 1995 result

Raisio, the Finnish foodstuffs, animal feeds and chemicals group, said it was aiming to match last year's FM131m (\$29.5m) profit before extraordinary items. Raisio said it expected turnover of FM4bn, of which FM1bn would be generated abroad. For the first four months, profits before extraordinary items and tax fell from FM71.4m to FM38.3m, on sales up from FM1bn to FM1.2bn. Earnings per share fell from FM88.6 to FM51.5.

Reuters, Helsinki

Creditanstalt warns on slowdown

Creditanstalt, the Austrian bank, boosted group operating profits by 40 per cent in the first five months to Sch2.6bn (\$240.8m), said Mr Guido Schmidt-Chiari, chairman. At the annual shareholder meeting, he said earnings growth would slow in the second half from last year's high base. But group net income after loan-risk provisions for 1996 would be above last year's Sch2.2bn.

Eric Frey, Vienna

Strong sales at L'Oréal unit

Synthelabo, the drugs subsidiary of L'Oréal of France, expects 1996 sales to be more than FF10bn (£1.9bn) and net profit margins to be 9 per cent. First-quarter sales were FF2.616bn, up 15.1 per cent.

AFX News, Paris

Nouveau Marché gathers pace

The Nouveau Marché, France's new stock market for fast-growing companies, should reach break-even at the latest by 1998, according to the 1995 annual report from the SBF, the operator of the market. During 1995, it incurred losses of FF3.8m ahead of its official launch in February this year. The SBF overall reported net income of FF122m, down from FF188m in 1994, reflecting low volumes of activity on the market.

Andrew Jack, Paris

Egyptian bank offering

Up to 20 per cent of the share capital of the Commercial International Bank of Egypt will be offered to international investors next month, when the National Bank of Egypt sells part of its 42.6 per cent stake in CIB. The transaction will be the first international equity offering by an Egyptian company. ING Barings is the global co-ordinator of the deal, which is expected to raise \$90m to \$100m through the issuance of Global Depositary Receipts, for which a London Stock Exchange listing has been requested.

Samer Iskandar

How to diversify without becoming a conglomerate

Saint-Gobain's takeover of Poliet has not blurred its focus, chairman Jean-Louis Beffa tells David Owen

Saint-Gobain is displaying signs of becoming a conglomerate, according to Salomon Brothers in London. "It is retaining cash and diversifying excessively [and] becoming a difficult-to-value proxy on the overall economy."

This judgment - from Mr Arnd Dijkers, a building materials analyst with Salomon Brothers - is evidently not one that finds favour with Mr Jean-Louis Beffa, chairman and chief executive of the French glass, ceramics and insulation company.

"This is not a conglomerate," he asserts in a number of times in an interview in his 13th-floor office at the company's headquarters in the futuristic La Défense business district on the outskirts of Paris. "We are not a conglomerate. We shall not be a conglomerate. We shall not be in businesses, like Hanson, which are not related."

The "conglomerate" tag has arisen in the wake of last month's deal with Paribas, the French financial holding company, under which Saint-Gobain is to take control of Poliet in a transaction valuing the building materials and home products group at around FF15.5bn (\$3bn).

The imaginatively structured deal will enable Saint-Gobain to take control of the management of Poliet while initially

buying less than 5 per cent of its capital. The rest of Paribas's 66.6 per cent stake in Poliet will be sold to Saint-Gobain in several stages between 1997 and 1999.

The snag, in Mr Dijkers' view, is Poliet's focus on distribution. "Saint-Gobain is an industrial manufacturing company which already has six to eight business units," he wrote in a paper circulated shortly after the deal. "With the acquisition of Poliet, 15 per cent of Saint-Gobain's business will be in distribution, focused on builders' merchants and joinery."

Mr Beffa sees this not as a problem, but an opportunity. "When you are at the end-market part of a business you know, it is going to be very useful for the development of the industrial part," he says. "When you are in the specialised distribution of building materials, you know the consumer's needs. You are able to take account of these needs to prepare the new products of the future. That is why it is helpful to be downstream. But it is no use being downstream in a business where you cannot get information useful for your strategy."

The acquisition of Poliet will also increase Saint-Gobain's exposure to its home market. This, too, might be thought an ill-timed move, with the

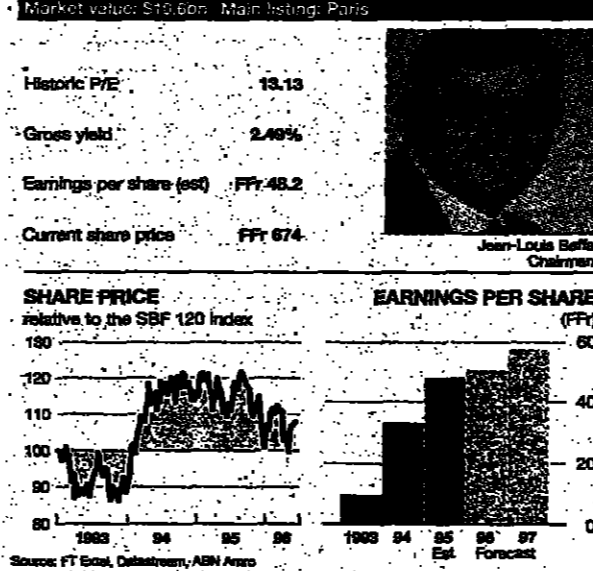
French economy still sluggish. But Mr Beffa is convinced Poliet can grow at a faster rate than the French economy as a whole. "Poliet has low market shares," he explains. "If you expand the market shares, it's alright. With Saint-Gobain's other businesses, I am more linked to the average growth of the French economy because of my already rather large market shares. It is different with Poliet because I can expand my market share."

The deal is certainly a landmark for Saint-Gobain in terms of sheer size. In the decade since privatisation, turnover has been stuck between FF60bn and FF80bn, largely because of the sale of businesses such as the paper and wood operations in 1994. Adding Poliet's 1995 sales of more than FF22bn to the group's existing turnover puts it within sight of crossing the FF100bn sales threshold.

One of Mr Beffa's chief aims in his 10 years at the helm of this venerable company, which traces its origins back to 1665 and the foundation of Louis XIV's Royal Glass Works, has been to make it less cyclical. "Everything I have done has been to reduce the cyclical nature of the business," he says. "Everything I have done is to make it more international."

Last year, the proportion of group turnover accounted for

PROFILE
Saint-Gobain



by France slipped as low as 29 per cent. The company then had more employees in North America than in its home market. With the Poliet acquisition, Mr Beffa says he is "putting the counter back to zero". The company's next expansion, he adds, "is going to be international-oriented again".

Not that he appears to have any really large targets in his sights. Acknowledging that Saint-Gobain still has the financial capacity to make a \$1bn acquisition "without a problem", he says in the next breath: "But I am not going to do that."

He continues: "I have enough businesses now. I am going only to make small acquisitions, strengthening each of these businesses. These

deals are going to add value because of the immediate synergies with existing businesses."

Meanwhile, he appears to be winning the conglomerate debate. "If you tried to value each division, you would get a valuation very much in line with the current share price," concludes Mr Emilio Alvarez, an analyst with Morgan Stanley. "There is no discount. Why? Because people don't think it is a conglomerate." Since the announcement of the Poliet deal on May 7, Saint-Gobain shares have outperformed the Paris stock market's benchmark CAC40 index by around 8 per cent. "I think that is the true response of the market, so I am very confident," Mr Beffa says.

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COMPANIES AND FINANCE: ASIA-PACIFIC

Cepa aims to list its Philippines power plants

By Edward Luce in Manila

Consolidated Electric Power Holdings (Cepa), the energy subsidiary of Hopewell Holdings of Hong Kong, plans to spin off its five Philippines power plants into a separate company which will be listed on the Philippines stock exchange in the next 10 months.

The planned initial public offering was announced yesterday by Mr Gordon Wu, chairman of Hopewell Holdings, at the opening of Cepa's 700MW coal-fired plant in Pagbilao, 120km south of Manila. It would enable Philippines investors to acquire a stake in the country's largest independent power producer.

"It is premature to say how

much we plan to raise," Mr Wu said. "We plan to group them [the five power projects] in to one big infrastructure company which can take on new infrastructure projects. We want to make it a local company."

The offering would add to the small number of foreign companies with a Philippines listing, including Shell Philippines, the local arm of the Anglo-Dutch oil group, and Koppel Philippines, the Singapore shipyard group. It would enable Cepa to raise cash locally, Mr Wu said.

The final go-ahead for the listing would depend, however, on resolution of a 12-month-old dispute with the government over its disqualification last year of a Cepa bid for a

1,200MW gas-fired power plant. Although it submitted the lowest bid, Cepa's US\$2bn tender was disqualified because it included technology from Westinghouse Electric of the US, which at the time was banned from the Philippines owing to a legal dispute with the government.

The dispute has since been resolved, but the government says it will press ahead with its plans for a re-bid for the plant later this year. Mr Wu said the incident had "left a bad taste in the mouth" but would not prevent Cepa proceeding with its IPO by 1997.

Philippines analysts said yesterday the Cepa Philippine listing would be well-received. "Cepa is a good company with a strong international reputa-

tion," said Mr Matthew Sutherland, chief researcher at Asia Equity Securities in Manila.

"Cepa's shares might be a little unexciting though, because its projects operate on a guaranteed return basis, with guaranteed cash flows and guaranteed yields. In other words it would be a safe but somewhat conservative bet."

Cepa is credited with having ended the Philippines "brown-out" crisis three years ago, when power shortages lasted up to 12 hours a day. Under the country's build-operate-transfer laws, the Hong Kong company was able to restore permanent electricity supply to most of Manila within months. The standard BOT contract lasts 25 years before ownership is handed over to the state.



Gordon Wu: Philippines investors will be able to take stake

NEWS DIGEST

Telekom Malaysia buys mobile unit

Telekom Malaysia, the country's dominant telecoms group, is buying the telecoms unit of Malaysian Resources Corp in a move to increase its penetration of the fast-growing mobile phone market. Telekom said it would buy the entire 200m shares of MRCC Telecommunication for M\$640m (US\$256m) at an unspecified date. The deal will add MRCC's 11,500 cellular phone subscribers to Telekom's 96,000, strengthening the former monopoly in its weakest area.

It also presents a challenge to Technology Resources Industries and its partner-to-be, Deutsche Telekom of Germany. TRI is the nation's biggest mobile phone operator. Deutsche Telekom signed a letter of intent last month to acquire 20 to 25 per cent of TRI for about M\$1.2bn. Mr Mohd Said Mohd Ali, Telekom's chief executive, said the company planned more acquisitions and was in negotiations with two or three companies.

Titan Industries, India's largest watch maker and part of the Tata group, posted a 29 per cent rise in operating profits to Rs775m (Rs2.3m) on the back of a 25 per cent growth in turnover to Rs3.51bn in the year to March. Net profits, however, grew only 9.88 per cent to Rs276m as interest costs jumped from Rs218m to Rs342m and depreciation claimed Rs157m, against Rs131m a year earlier.

Earnings per share rose from Rs5.92 to Rs6.52. The company has proposed a higher annual dividend of Rs3.3 a share, against Rs3. Earnings from exports rose from Rs188m to Rs374m. Mr Kervas Desai, managing director, said the improvements came despite delays in setting up a chain of jewellery boutiques and the high cost of opening up the European market.

Teck Corporation, the Canadian mining group, is to invest in two small Australian goldmining groups. It said that it would spend about A\$6m (US\$4.75m) on a 15 per cent stake in the Perth-based Camelot Resources group, which produces about 60,000 ounces of gold a year from the Mt Gibson mine. The Vancouver-based group will also fund almost A\$1m of exploration work at Pine Creek, in the Northern Territory, by Northern Gold, in which Camelot holds a 40 per cent interest. Teck will receive shares and options in Northern. It will also have the right to earn a 50 per cent interest in Northern's regional tenements in return for funding a feasibility study there, should a reserve of more than 400,000 ounces be established.

Infrastructure spin-off plan hits Cheung Kong shares

By Louise Lucas

Shares in Cheung Kong fell yesterday after the property developer announced initial details of the proposed spin-off of its infrastructure business. The flotation will raise between HK\$3.1bn and HK\$3.5bn (US\$422m), analysts were told yesterday.

Cheung Kong Infrastructure (CKI), which takes in power

plants, bridges, highways and construction materials businesses in China and Hong Kong, is the latest hived-off infrastructure company to tap the market for funds.

New World Infrastructure was spun off at the end of last year from the developer New World Development, raising HK\$1.6bn. In late 1994 Hopewell Holdings set a record with the HK\$6.9bn flotation of its

power projects, Consolidated Electric Power Asia (Cepa).

The CKI shares are to be sold at a discount of between 5 per cent and 15 per cent to the net asset value, which will put a price tag of between HK\$11 and HK\$12.65 on the new shares. Ninety per cent of the issue will be placed internationally and the rest in Hong Kong.

But while Cheung Kong's share price fell from HK\$56.25

to HK\$55.50, analysts who attended yesterday's more detailed presentation - given after the market closed - believed there were more benefits for the parent than CKI. Cheung Kong will retain around 70 per cent of CKI after the listing and the new company will have total assets of HK\$17.1bn-HK\$17.6bn.

One analyst said: "You are talking about very little dilu-

tion. The entire book cost of these projects is only HK\$3.7bn - the new money is equivalent to that and they will still own some 78 per cent of the company."

Analysts noted that more than 70 per cent of CKI's profits this year will come from the group's cement and concrete activities in Hong Kong. One broker said: "Quite a few people, including me, are quite sceptical about the construction boom - which will probably end in 1996 when the new airport is finished - will further growth be achievable?"

"They [CKI] supply a lot to the new airport, and the private sector is also very buoyant. But after the infrastruc-

ture boom - which will probably end in 1996 when the new airport is finished - will further growth be achievable?"

CKI says it is addressing this by looking at opportunities elsewhere in the region, such as the Philippines. The size of the issue means heavy oversubscription is unlikely, and brokers further claim the issue has not been cheaply priced. Stock will be offered on a price/earnings ratio of 18.5 to 21 times 1996 earnings. New World Infrastructure, preferred by many for its wider exposure - for example, it is in the container terminal business - trades on a p/e ratio of about 20.

Citic Pacific reduces HK Telecom stake

By Louise Lucas in Hong Kong

Citic Pacific, the Hong Kong listed arm of Beijing's main domestic and international investment vehicle, yesterday fuelled speculation it would sell out of Hongkong Telecom by disposing of a further 2 per cent of its stake in the colony's telecoms carrier.

The sale of 228.17m shares, which raises HK\$3bn (US\$388m), comes just five months after it sold another 2 per cent tranche, and reduces its stake to 8 per cent.

Mr Vernon Moore, deputy

managing director of Citic Pacific, said the sale - to an undisclosed third party - was purely commercial. "Somebody was willing to buy at a price we considered very reasonable, and we have refocused our business somewhat towards aviation."

But the price received, at HK\$13.30 a share, or a 6 per cent discount to Friday's closing price of HK\$14.15, was sharply below the HK\$14.85 achieved in January. Citic Pacific plans in to its recently announced infrastructure projects, in particular

water treatment plants at Nanjing and Wuxi in China.

The group has a conservative gearing, of 15 per cent, which will drop to 10 per cent after yesterday's sale.

Hongkong Telecom has been the focus of much speculation in the colony since the merger talks between British Telecommunications and Cable and Wireless, majority holder of Hongkong Telecom, collapsed.

Moreover, the deal engineered between the commercial arm of China's aviation regulator, Citic Pacific and Cathay Pacific, the colony's de facto airline carrier - which in

effect handed China a slice of Hong Kong's aviation market - has led many observers to believe Hongkong Telecom will have to undergo a similar ownership shake-up to better prepare it for the transfer of sovereignty to China next year.

One possibility being discussed in the market is that China's Ministry of Post and Telecommunications will be brought in.

Citic Pacific, having taken a big stake in Cathay Pacific, is regarded as being less likely to be coerced into representing China's interests in telecoms as well.

Profits rise sharply at Japanese life groups

By Emiko Terazono in Tokyo

Japan's leading life insurance companies reported sharp rises in recurring profits - before tax and extraordinary items - for the year to last March.

The improvement was due to increases in asset management revenues, but the companies continued to face low investment returns as a result of record low interest rates.

Companies such as Dai-ichi Mutual Life and Sumitomo Mutual Life posted profits on domestic bond and foreign securities sales, boosting asset management revenues.

Costs on asset management declined due to the recovery in the Tokyo stock market, which helped cut appraisal losses on stock holdings. Chiyoda Mutual Life returned to the black after posting losses in the previous year - the first leading life insurer since 1945 to do so.

Japanese life insurers results

Table with columns: Total assets, Premium revenue, Recurring profit, Investment yield. Rows include Nippon, Dai-ichi, Sumitomo, Meiji, Aioi, Daiwa, Tokai, Chiyoda.

To cut costs, Nippon Life said it had reduced executives' pay by 30 per cent and planned to eliminate 2,000 jobs over the next two years, while Sumitomo also pledged to cut 2,000 jobs and trim bonus payments for employees by 4 per cent.

For the current year the life insurers said premium income was expected to be flat or lower than last year.

Unrealised gains on stock holdings, which are not included in profit and loss statements, rose sharply because of the recovery in the Tokyo stock market. Combined unrealised profits on shares jumped from Y4,830bn a year earlier to Y11,468.2bn (\$105bn). Premium revenues were sluggish at most companies,

except Nippon Life Insurance, which posted a strong increase after a 15 per cent rise in income from individual pension insurance.

Although other companies also benefited from increases in premium revenues for individual pension insurance, they suffered from declines in group insurance contracts.

The combined revenue for the eight companies totalled Y22,510.2bn, a 0.6 per cent increase from the previous year. Insurance benefit payments rose at all the insurers. Net profits were affected by bad loan write-offs. The insurers reported a total Y1,641.5bn in overall bad loans, including Y364.1bn to the Jusen housing loan companies, and wrote off a total Y866.5bn.

On the investment side, record low money market rates affected investment yields. Since the insurers have an average annual rate of interest on their liabilities of about 4.5 per cent, they have been forced to realise earnings on securities and cut interest on new policies and withhold dividend payments.

Insurers said that apart from the promised yield, some 40 to 50 per cent of their policy holders would not be paid the extra dividends.

Overall investment in foreign currency assets declined because of caution over foreign currency losses. The combined balance of foreign currency assets fell 8.9 per cent to Y6,966.5bn at the end of last March.

Advertisement for Saks Holdings, Inc. listing 18,062,500 Shares and 3,162,500 Shares, with a list of underwriters including Goldman Sachs International, CS First Boston, Morgan Stanley & Co., Salomon Brothers International Limited, etc.

Close Fund Management Ltd advertisement with address and contact details.

LEGAL NOTICES section with 1ST STOP D.L.Y. LIMITED notice.

ROSETTA FOODS LIMITED advertisement with company details.

CONSOLIDATED ANNUAL REPORT for the period April 1, 1988 to March 31, 1990, including financial statements and balance sheet.

COMPANIES AND FINANCE: THE AMERICAS

Kellogg joins price war in US breakfast cereal market

By Richard Tomkins in New York

The price war in the US breakfast cereal market escalated yesterday as Kellogg, the biggest cereal company, slashed the prices of one of its top-selling products by up to 28 per cent.

The company tried to put a positive spin on its cuts, announcing them with a fanfare in New York. It they were seen as a defensive move following steep price cuts in April by Philip Morris's Post subsidiary, one of Kellogg's biggest rivals.

Kellogg acknowledged the price reductions would result in a slump in earnings per share from 77 cents to 65 cents in the second quarter. June, and said it expected earnings per share for the full year to be no higher than last year's.

US cereal company share prices fell as Wall Street responded to the threat of tumbling profits. Kellogg's fell 52% at \$72 in early trading. General Mills fell 11% to \$55, and Ralcorp, a large maker of private label breakfast cereals, dropped 8% to \$29.

Separately, Hicorp announced it expects profits to fall this year because of the "negative pricing trends". It



Arnold Langbo and Tony put a positive spin on the cuts

said it was cutting 100 jobs as part of a plan to trim costs by \$25m-\$30m a year.

Kellogg said prices to retailers would fall by an average of 19 per cent on brands comprising about two-thirds of its US business. It said the price of Kellogg's Frosted Flakes, its best-selling product in the US, would fall 18 per cent.

The company said it would also cut the distribution of money-off coupons. Only 2 per cent of the coupons printed were redeemed, it said.

Mr Arnold Langbo, Kellogg's chairman and chief executive, issued the price cuts had been made possible by cost savings achieved through a global streamlining initiated last

year. This included a 15 per cent cut in the US workforce.

However, Mr Langbo acknowledged that the company had also seen a fall in its market share since the decision by Philip Morris in April to cut the prices of its Post and Nabisco branded cereals by an average of 20 per cent. Philip Morris also reduced the distribution of coupons.

US cereal companies have traditionally maintained high list prices for their products, but lowered effective prices at the check-out with coupons and special offers. Their change in strategy has been forced by increasing competition from lower-priced products and private label brands.

Empresas Polar pursues a lone course

As the beer war in Latin America heats up and international brewers forge alliances with regional partners to capture a share of the market, Empresas Polar, Venezuela's food and beverage group, remains a lone wolf.

While large brewers such as Anheuser-Busch, Heineken and Miller have entered the Latin American market through local partners, Polar feels unharmed and is betting on gradual, calculated expansion with no outside assistance.

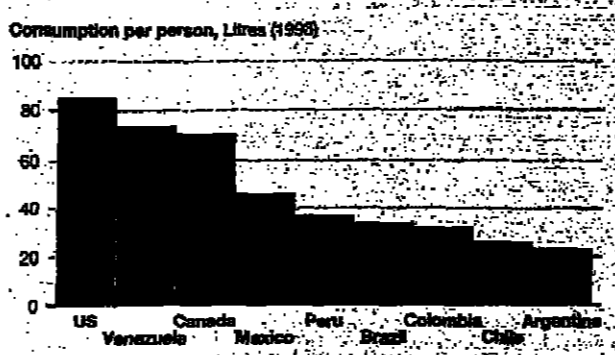
"In the beer industry, it's very difficult to bite a chunk out of someone else's market," says Mr Lorenzo Mendoza, who heads the Polar group's executive board and is one of the principal shareholders.

He adds that in almost all Latin American countries "the market is dominated by one or two usually very strong players". Putting a dent in their market share is a tricky business. "With the wrong approach, he says, "you can lose your shirt".

Polar itself has been fending off inroads into the Venezuelan market by Brahma, the Brazilian brewer, but maintains 96 per cent of the market.

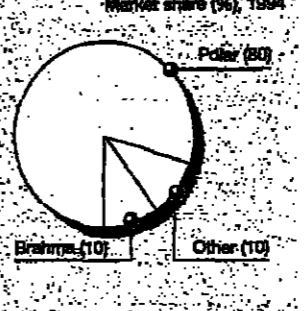
Polar thinks little of strategic alliances. "We don't believe in third-party producers or distributors," says Mr Mendoza, "nor in acquiring a market's third or fourth-ranked pro-

US and Latin American beer industry



Source: The Brewers and Licensed Retailers Association

Venezuelan beer industry



Source: Statistica Sociologia

ducer. You may be able to acquire a minority share in a leading company, but it's very rare that the number one or two company sells out or gives you the necessary control of their business."

In the meantime, Polar kicked off its own expansion plan into the neighbouring markets last August, when it refitted one of its plants close to the border with Colombia and began exporting to its western neighbour.

Avoiding capital costs of a new plant but investing in its own distribution system, Polar captured 15-20 per cent of the market in the extended frontier region that it reaches.

The key to penetrating new markets as well as maintaining control over the Venezuelan market, says Mr Mendoza, is

also to maintain utilisation of capacity between 75 and 90 per cent.

Yet transportation costs inhibit reaching more distant markets, and Polar does not see exports accounting for much more than the current 5 per cent of total sales. In order to reach further west into Colombia, including the important Bogota market, Polar is now considering a \$130m green-field operation in Colombia.

The company is cost competitive, says Mr Donald de Vost, Polar's chief financial officer, because it is reaping the benefits of having invested heavily in automated production lines some years ago.

Timely expansion of production plants to anticipate future demand has allowed Polar to increase sales continuously but

only makes sense once a certain market presence has been gained and the market has been thoroughly studied. "If you have less than 10 to 15 per cent of the market, the big players will squeeze you out. If

you don't have a good base, you can lose a lot of money."

As traditional consumer behaviour changes and more Venezuelans drink beer at home rather than in the neighbourhood tavern, Polar has moved into the retail business, acquiring a share in two supermarket stores as well as a supermarket chain.

The group's sales last year reached a record \$1.5bn, roughly 60 per cent of which came from beer. Polar has long since reached its growth potential in Venezuela's domestic beer market and for some time has been developing other export products.

Once the production of its Altigracia vineyards, which were started from scratch just over a decade ago, exceed domestic demand next year, the dry whites and champagne will hit international markets.

Yet the largest growth potential lies in Polar's food-processing division. The company has snack food operations in nine countries, has begun exporting cornflour to Colombia, and will soon expand its rice and corn processing by acquiring plants in Colombia and Peru or set up its own plants there.

"Food processing has enormous potential," says Mr Mendoza, and unlike the beer market, it is not dominated by a few strong groups.

Raymond Collett

Repsol has to dig deep to win Astra

By David Pilling in Buenos Aires

Repsol has finally found a firm toehold in South America. But the \$300m paid by the Spanish hydrocarbons conglomerate for a 37.7 per cent controlling stake in Argentina's fifth-biggest energy group raised eyebrows in Buenos Aires.

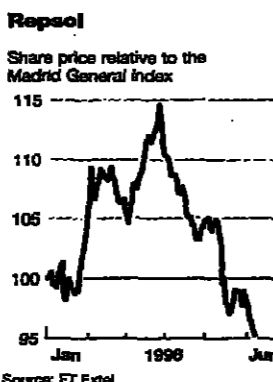
"The market, ourselves included, was surprised by the high price paid by Repsol - \$3.11 a share, far above the current price of \$2.25," said one analyst at the local Banco Republica. The bank does not believe Astra's fundamentals justify a price of more than \$2.10 to \$2.20 a share.

But Astra proved a enticing bait for many. J. Morgan, which negotiated the sale, is reported to have bid talks with several companies, including Texaco and oil of the US, as well as Argentina's YPF and Perez Compan.

Such interest allowed negotiators to drive up the price, with the \$300m final offer valuing the 37.7 stake at 7.5 times Astra's proportional earnings for 1995.

In addition to Astra's oil and gas stakes, which represent about 5 per cent of Argentine production, Repsol gains Astra's operating contact in the substantial Quilares-La Ceiba oil field in Venezuela.

Astra also has a 32.5 per cent stake in Eg3, Argentina's fourth-largest retail oil ser-



Source: FT Econ

vice station group, as well as participation in a refinery, the Buenos Aires gas distributor Metrogas, electricity companies and a shipping fleet.

As well as the assets, Astra will give Repsol important experience in Latin America's most deregulated energy environment. Analysts say this could prove invaluable if Repsol is to increase its Latin American presence as the continental energy market deregulates.

Repsol, which has interests in Mexico, Colombia and Venezuela, is also hoping to enter the Peruvian market.

Peru's government is today due to announce the winner of an auction for a 60 per cent stake of La Pampilla refinery, in which Repsol is participating as part of a consortium with Mobil and YPF.

Forstmann in \$1.4bn healthcare acquisition

By Lisa Branstetter in New York

Community Health Systems, a Tennessee-based hospital management company, agreed yesterday to be acquired by Forstmann Little, the New York buy-out firm, in a deal valued at \$1.4bn including debt.

The deal is Forstmann's first venture into the healthcare sector and its largest single investment.

Forstmann will put \$1bn of its own capital - nearly half of the \$2.3bn it recently raised for new acquisitions - and Chase Manhattan, if New York bank, will provide \$500m in loans.

In early trading, shares of Community Health rose 3% to

Forstmann's offering price of \$2, which represents a 30 per cent premium to their closing price on Friday.

Founded in 1985, Community Health has focused on buying hospitals in rural areas that dominate those markets.

Community said it intended to continue acquiring hospitals in rural areas and had no plans to move out of its niche.

The deal will provide the hospital company with \$500m to step up the pace of its acquisitions. Community Health said it would retain its management team.

Forstmann said it intended to begin a tender offer for shares today and complete the acquisition in July.

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The appropriate authorities in the United States and in the United Kingdom have been advised of the misrepresentations.

Any person or company that has or may have relied on any such misrepresentations relating to Bain Hogg International Limited or that has any relevant information requested to contact Mr M D Cooney, Company Secretary of Bain Hogg International Limited at the above address.

Report in England No. 233/182

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Bank Austria

BZW was lead manager in the DM250 million 5.125 per cent issue for Bank Austria AG due May 2001.

April 1996

Westpac Banking Corporation

BZW was lead manager in the US\$200 million floating rate note issue for Westpac Banking Corporation due April 1996.

April 1996

Westpac Banking Corporation

BZW was lead manager in the US\$200 million floating rate note issue for Westpac Banking Corporation due April 1996.

April 1996

European Bank for Reconstruction and Development

BZW was lead manager in the US\$275 million 6 per cent issue for European Investment Bank due April 2001.

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Morgan Guaranty Trust Co of New York

BZW was lead manager in the AS\$35 million 8 per cent issue for Morgan Guaranty Trust Co of New York due April 2001.

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Abbey National

BZW was joint lead manager in the £770 million 6.5 per cent guaranteed issue for Abbey National Treasury Services plc due February 2001.

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European Bank for Reconstruction and Development

BZW was joint lead manager in the DM1,000 million 4.875 per cent issue for European Bank for Reconstruction and Development due February 2001.

January 1996

European Bank for Reconstruction and Development

BZW was joint lead manager in the £400 million 7.875 per cent issue for European Investment Bank due December 2000.

January 1996

National Australia Bank

BZW was joint lead manager in the US\$500 million floating rate note issue for National Australia Bank Limited due February 1997.

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Abbey National

BZW was joint lead manager in the DM250 million 4.625 per cent guaranteed issue for Abbey National Treasury Services plc due February 2001.

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BZW was lead manager in the DM250 million 4.5 per cent issue for Bank Austria AG due December 1999.

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Bank Austria

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General Motors Acceptance Corporation of Canada Limited

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European Bank for Reconstruction and Development

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First Hydro

BZW was sole underwriter in the £200 million 8 per cent issue for First Hydro Finance plc due July 2001.

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BAA

BZW was lead manager in the £250 million 8.5 per cent issue for BAA plc due March 2001.

January 1996

Landesbank Schleswig-Holstein Girozentrale

BZW was lead manager in the US\$200 million 6.375 per cent issue for Landesbank Schleswig-Holstein Girozentrale due February 1999.

January 1996

INVESTMENT BANKING. FROM A TO



LAW

Judgments in complex fields



EUROPEAN COURT

The European Court of Justice has ruled that where it gives a judgment annulling legislation in a complex field, such as milk quota legislation...

Isetan honorary chairman Kosuge ready to bow out

Kuniyasu Kosuge, the 51-year-old great grandson of the founder of Isetan, the prestigious Japanese department store chain, will resign from his post as the retailer's honorary chairman later this month.

Kosuge's departure will be finalised at a shareholders' meeting on June 27. Ever since Isetan was founded by Tanji Kosuge in 1926...

Cheung adds Macau



Cable and Wireless, the telecommunications group, is continuing to beef up its management in the Asia Pacific region. Linus Cheung (left), chief executive of Hong Kong Telecom...

INTERNATIONAL PEOPLE

He takes over there from Peter Burleigh, who goes to the new position of director of China development. Cheung's new responsibilities come only as matter of weeks after Richard Goswell...

HK monetary move

Norman Chan, who last week became the third deputy chief executive of the Hong Kong Monetary Authority (HKMA), the colony's de facto central bank...

government - in company with many governments around Asia - was faced with an attack on the currency in the wake of the Mexican peso crisis. In Hong Kong Chan was widely credited with leading off the speculators...

Reilly breaks through

Michael Reilly, a senior executive in Europe for Calsonic, the leading Japanese car components group, has been promoted to the board, making him one of the handful of European managers to reach the boardrooms of major Japanese companies.

employees and management in 1987. After the purchase by Calsonic in 1989, Reilly became president of Calsonic International (Europe). Under his leadership, the operation has tripled sales to \$150m, extended its manufacturing base and broadened its product range.

Simon beefs up board

Simon Engineering, the restructured UK group which last year returned to profit, has appointed two non-executive directors to the board of its Australian subsidiary...

ON THE MOVE

James Buckley, senior vice president and president of APPLE COMPUTER'S AMERICA'S DIVISION, has resigned after 11 years with the group. Under a reorganisation, six executives will report to Gilbert Amelio...

Swissair's chief executive, as chairman of CROSSAIR. Steffy Schwab has retired as president of MCA TV, but will remain on the board as a consultant to the syndication division of MCA Television Group...

Sciences Corporation). Timothy Miller is to manage the \$70m Invesco Growth Fund as well as the \$800m Invesco Dynamics Fund, where Douglas Pratt has resigned. Dalton Sim takes charge of the \$447m Invesco Strategic Financial Services Portfolio...

Service Deutschland and will be replaced by Horst Buelmann and Lutz Heyer. Peter Di Giannatino, 42, vice president and business area manager at American Management Systems, has been appointed president and chief operating officer at HYPERION SOFTWARE...

managing director of EDISON GAS (part of Montedison), has been elected chairman of the company. Joseph Kaminski, 57, has been elected to the board of AIR PRODUCTS AND CHEMICALS...

International appointments. Please fax announcements of new appointments and retirements to +44 171 873 3939, marked for International People. Set fax to 'line'.

LIPPO LIFE advertisement featuring financial highlights table comparing 1995 and 1994 data, and text describing the company's growth and international partners.

1996 UK Investor Relations Magazine Awards advertisement, including details on the award ceremony, survey methodology, and contact information for Rebekah Bawcutt.

MARGINED CURRENCY DEALING advertisement for Laurion, listing various services and contact details for multiple locations.

TECO Electric & Machinery Co. Ltd advertisement regarding shareholder notices and company information.

COMMODITIES AND AGRICULTURE

Copper trading calmer at LME

By Kenneth Gooding, Mining Correspondent

Volatility in the copper market caused by a furious struggle for supremacy between some of the biggest metal merchants and the biggest US hedge funds eased a little yesterday. But analysts suggested that it might be the quiet before another storm - one that might be triggered when the London Metal Exchange releases details of copper stocks today.

Some analysts remain convinced that China is short of copper, will start buying substantial quantities soon and expect this to show in the LME statistics before long. Others say rumours of potential Chinese buying have been in the market for so long they are no longer credible.

LME stocks are still very tightly held and anyone short of metal for delivery on a particular date in the near future is having to pay dearly for it. Copper for delivery on the LME in three months ended at US\$2,345 a tonne in after-hours trading yesterday, up \$35. The premium for immediate delivery eased to \$270 a tonne after touching \$300 at one point. The premiums for delivery in June and July were about \$140, down from \$200 late last week.

Rumours of huge profits and losses being made from last week's wild swings in copper's price continued. Traders said "serious money" was involved and pointed to the mid-session margin call by the London Clearing House on Thursday, which brought in \$700m.

EBRD 'likely to double backing for CIS mining'

By Kenneth Gooding

The European Bank for Reconstruction and Development is likely to double its backing for CIS mining in the next few years, according to Mr Stéphane Bavezzer of the EBRD's natural resources group.

His group has another eight to ten projects in the pipeline and is very close to board approval. The bank is also considering backing Russian gold mining companies directly rather than only those involved in joint ventures with foreign partners. He said at a meeting with the Association of Mining Analysts that the EBRD was focusing on gold because that was what foreign investors wanted. It was very unlikely that the bank would back any other type of metal mining projects although it might consider processing ventures such as aluminium smelters.

EBRD so far has backed three gold projects: one in Uzbekistan where Newmont Mining of the US is involved in the Zarafshan joint venture, one in Kyrgyzstan where Cameco of Canada has the Kumtor joint venture, and the third in Russia, where Cyprus Amax of the US is involved in the Kubaka venture.

Mr Bavezzer pointed out that between them these would produce an annual 1.5m troy ounces of gold. He said the bank and the joint venturers had learned some important lessons about operating in the former Soviet Union, not the least that it was difficult to budget because logistics were complex and untried, because local labour productivity was untested and because it was impossible to predict the impact of inflation on costs.

Success required an attractive resource, dedicated partners, perseverance, and political support from the domestic government.

Raw jute shortage forces closure of Indian mills

By Kunal Bose in Calcutta

An acute shortage of raw jute and record prices have forced the closure of several jute mills in India. Others are trying to cope with worsening fibre supplies by reducing the number of shifts and also the working hours per shift.

An Indian Jute Mills Association official said eight of the 59 jute mills in West Bengal had stopped production altogether. "Except for about half a dozen financially rich jute factories, which continue to work 21 shifts a week, the others are run for 12 to 18 shifts a week," he said. "We have told

the West Bengal government that many more factories will put up the shutters in the coming weeks." West Bengal is the centre for growing raw jute and producing jute goods.

The situation is even more alarming in Andhra Pradesh, the second most important jute goods centre. According to the industry officials, all the major units in the southern state have stopped production and the chances of their reopening soon are ruled out. Orissa and Madhya Pradesh have also reported a sharp fall in production of jute goods in the past few weeks.

Indian benchmark grade, is Rs1,690 (\$58.14) a quintal, compared with Rs2,210 a year ago. "Never in the past had jute commanded such a high price. The mills are, however, not able to pass on the extra cost on account of fibre to the consumers. At the prevailing price of Rs21,000 a tonne of standard jute bags, the mills are losing nothing less than Rs4,500 a tonne," said Mr Shankar Ladia, spokesman for the Jute Buyers' Association.

At a recent LIMA stock-taking it was found that in the first ten months of the current season, to April 1996, the industry had consumed 7.07m

bales (100kg each) to produce 1.22m tonnes of jute goods. LIMA thinks that the mills will at the most be able to procure another 800,000 bales in May and June.

"It is too late in the day to think of importing raw jute from Bangladesh or any other country. While Bangladesh is left with very little exportable surplus at this stage, the imported fibre will prove to be too very expensive for the Indian mills. BTE, the Bangladesh grade equivalent to Indian TD-4, costs \$500 a tonne, to which is to be added handling and transportation charges," said Mr Ladia.

"We are scraping the barrel. The mills may not finally get 800,000 bales in May and June. The local supply of fibre in the current season is not more than 6.6m bales, including the opening stocks of 900,000 bales. In which the meantime, the Indian mills are finding it difficult to sell jute goods in the world market at the prevailing high prices. "We used to sell large quantities of jute bags for packing rice in the Middle East. We are fast losing that market to synthetic substitutes. The European countries have also cut down on the import of jute bags because of their high prices," said the LIMA official.

Wider horizons seen for South African aluminium

Mark Ashurst on a value-adding project in KwaZulu-Natal, the country's 'Aluminium Province'

KwaZulu-Natal is still plagued by political violence and desperate poverty, but it is gaining a new reputation as "The Aluminium Province". Generally, South Africa exports dirt," says one Johannesburg gold analyst. "We dig it up and we sell it to people. But in aluminium, there is the making of a real industry. All the different stages of the manufacturing cycle are entering a stage of tremendous growth."

Aluminium is fast replacing steel as the metal of choice for items as diverse as drinks cans, car radiators, toothpaste tubes and skyscrapers. The consequent surge in demand from local manufacturers has enabled Hulett Aluminium, the sole supplier of semi-fabricated sheet, foil and plate to myriad downstream industries, to increase output from 25,000 tonnes in 1995 to more than 55,000 tonnes last year. Over the same period, world demand for aluminium has grown steadily at just 2.5 per cent a year.

In April Hulett embarked on the first stage of a R2.4bn (US\$550m) expansion that will triple output at its factory in Pietermaritzburg, KwaZulu-Natal, to 150m tonnes a year over

the next five years. This follows a R6.4bn investment in Alusaf's primary aluminium smelter at neighbouring Richards Bay, which was officially opened by President Nelson Mandela earlier this month. The new smelter is the largest private sector capital project yet undertaken in South Africa. Hulett is its biggest local customer.

The semi-fabricated aluminium producer has also backed the national trend among other capital-intensive manufacturers who are streamlining their product range in pursuit of longer production lines and economies of scale. While domestic car manufacturers, for example, are building fewer models in greater numbers, Hulett will manufacture aluminium in at least 6,000 different shapes and sizes. "It is the most interesting and versatile metal in the world," says Mr Des Winship, chief executive. "Most of its future applications have not been invented yet."

South Africa is well placed to exploit this potential, largely because of the competitive advantage of a cheap energy supply. As President Mandela commented at the opening of the Alusaf smelter: "By using electricity generated from our abundant supplies of coal to

produce aluminium, the smelter will contribute to the drive to add more value to our primary products before export."

Alusaf will export about 500,000 tonnes of primary aluminium a year, earning at least R1.5bn a year in foreign exchange. It is a mark of the industry's coming of age that doubts over the viability of such a huge project have been superseded by plans to build a second export-driven smelter at the nearby Mzimba harbour, using surplus energy from the Cahora Bassa hydroelectric dam.

By contrast, the Hulett expansion depends on the growth of local downstream industries. "We are in the wrong place to be a huge exporter, but we aren't able to build a smaller plant," says Mr Winship. "Our cornerstone is the local market, but to produce world class quality material we need to expand." Expanded capacity is expected to increase their current level of about 11 per cent of production to between 30 and 50 per cent as surplus metal from the new plant is sold on overseas markets, principally in the Far East. For all their bullishness,

investors came close to abandoning the Hulett project. Mr Rupert Farooq, financial director of the Anglo-American Industrial Corporation, says the final go-ahead followed a war of attrition with the Board on Tariffs and Trade.

"The investment was conditional on an acceptable level of tariff protection, and it was costing him a month in consultancy fees while the board made up its mind," Amic controls Hulett-parent Tongaat-Hulett, which owns 50 per cent and has a further, independent stake of 20 per cent.

The Board on Tariffs and Trade, which is charged with promoting competition and the re-entry of local industries to the global economy, had proposed a dramatic cut in the duty on imported aluminium from its current 22 per cent level to 5 per cent within five years. But after lobbying from the Department of Trade and Industry and Hulett it last month revised its target to the 10 per cent level within seven years. "We are satisfied by the shift in the government's position," says Mr Farooq. The new tariff scheme is also seen by Hulett customers as a victory for Amic, South Afri-

can Breweries, the biggest consumer of the aluminium cans used to manufacture drinks cans; protest that Hulett is already protected by the shipping costs incurred by its overseas competitors. "We will keep on pushing for a zero tariff on aluminium metal sheeting product as the local aluminium price remains much more expensive than the international price."

The dispute highlights the delicate nexus between dismantling the high tariff walls that protected local manufacturers during the apartheid era and the other goals of industrial policy. In principle, the government favours protection only at the world's aluminium bid is already one of the biggest exporters of aluminium motor parts to Mercedes and BMW in Europe. Africa is also likely to become an important market.

"The average thickness of human hair is 26 microns (0.026mm). That's four times the thickness of the rolled aluminium foil we will make at the new plant," says Mr Peter Staude, Hulett managing director. Exports of cartons lined with this foil will allow ultra-pasteurised milk to be transported for thousands of kilometres to places where refrigeration is unheard of.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

Table with columns: Metal, Price, Change, High, Low, Open, Close. Includes Aluminium, Zinc, Lead, Tin, Nickel.

Precious Metals continued

Table with columns: Metal, Price, Change, High, Low, Open, Close. Includes Gold, Silver, Platinum, Palladium.

GRAINS AND OIL SEEDS

Table with columns: Commodity, Price, Change, High, Low, Open, Close. Includes Wheat, Maize, Soybeans, Copra.

SOFTS

Table with columns: Commodity, Price, Change, High, Low, Open, Close. Includes Cocoa, Coffee, Sugar.

MEAT AND LIVESTOCK

Table with columns: Commodity, Price, Change, High, Low, Open, Close. Includes Live Cattle, Hogs, Sheep.

ENERGY

Table with columns: Commodity, Price, Change, High, Low, Open, Close. Includes Crude Oil, Heating Oil, Gas.

PRECIOUS METALS

Table with columns: Metal, Price, Change, High, Low, Open, Close. Includes Gold, Silver, Platinum, Palladium.

UNLEADED GASOLINE

Table with columns: Location, Price, Change, High, Low, Open, Close.

INDICES

Table with columns: Index, Value, Change, High, Low, Open, Close.

JOTTIER PAD

Table with columns: Commodity, Price, Change, High, Low, Open, Close. Includes Live Cattle, Hogs, Sheep.

LONDON TRADED OPTIONS

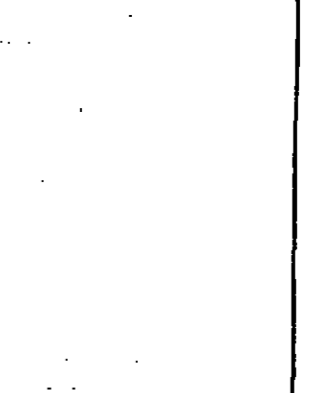
Table with columns: Commodity, Price, Change, High, Low, Open, Close.

LONDON SPOT MARKETS

Table with columns: Commodity, Price, Change, High, Low, Open, Close.

CROSSWORD

No.9,091 Set by HIGHLANDER



ACROSS

- 1 Graduate teachers object to single-room accommodation (8)
2 Putting something on a ban-... (5)
3 Drives with footwear mam-... (6)
4 Greek comes out of trance... (5)
5 Not working with group in... (6)
6 Cook sounds like an ass (6)
7 Quotes me about what makes... (6)
8 Saw, for example, gin drunk... (6)
9 American farmer took care of... (6)
10 Returned to office to choose... (6)
11 Doctor food with it (6)
12 Fish turning away from the... (6)
13 Permission to proceed with... (6)
14 Put over for wool (6)
15 You said wise men form regu-... (6)
16 Part of case for leisure... (6)
17 Spring profit is about zero (6)
18 Recognised usual colours (6)
19 Go round via route through... (6)
20 The Peaks (6)
21 Bet on stranger bugs for his-... (6)
22 Putting something on a ban-... (5)
23 Drives with footwear mam-... (6)
24 Nervous appearing in Dela-... (6)
25 Not working with group in... (6)
26 Cook sounds like an ass (6)
27 Quotes me about what makes... (6)
28 Saw, for example, gin drunk... (6)
29 American farmer took care of... (6)
30 Returned to office to choose... (6)
31 Doctor food with it (6)
32 Fish turning away from the... (6)
33 Permission to proceed with... (6)
34 Put over for wool (6)
35 You said wise men form regu-... (6)
36 Part of case for leisure... (6)
37 Spring profit is about zero (6)
38 Recognised usual colours (6)
39 Go round via route through... (6)
40 The Peaks (6)
41 Bet on stranger bugs for his-... (6)
42 Putting something on a ban-... (5)

DOWN

- 1 Bet on stranger bugs for his-... (6)
2 Putting something on a ban-... (5)
3 Drives with footwear mam-... (6)
4 Nervous appearing in Dela-... (6)
5 Not working with group in... (6)
6 Cook sounds like an ass (6)
7 Quotes me about what makes... (6)
8 Saw, for example, gin drunk... (6)
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41 Bet on stranger bugs for his-... (6)
42 Putting something on a ban-... (5)

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INTERNATIONAL CAPITAL MARKETS

European sector recoups part of Friday's losses

By Samar Iskandar in London and Lisa Bransten in New York
Most European bond markets had a positive session yesterday, recouping part of Friday's losses. But prices remained shaky, losing some of their earlier gains after the US market opened, and are likely to be vulnerable to bearish news in the coming days.

a bearish note. Liffe's September long gilt future settled at 105 1/4. In the cash market, the benchmark 7 1/2 per cent gilt due 2008 closed at 96 1/4, up 1/4.

German bonds also ended the day higher. Liffe's September bond future closed at 95 1/4, up 0.05. In the cash market, the 10-year benchmark bond, the 6 1/2 per cent bond due 2006, was 0.05 higher at 97 1/4.

Analysts are predicting further unilateral monetary easing by the French central bank, given the favourable inflation outlook. Consumer prices rose 0.3 per cent in May, leaving the inflation rate unchanged at 2.4 per cent.

Spanish bonds were supported by the government's economic measures adopted last Friday, but closed off their gains in the wake of falling Treasuries and bunds.

Near midday, the benchmark 30-year Treasury was down 1/4 to 98 1/4, yielding 7.061 per cent. The two-year note was 1/4 lower at 99 1/4, yielding 6.375 per cent, and the September 30-year Treasury bond future had dropped 1/4 to 106 1/4.

Italy set to launch \$2bn issue of five-year floating-rate notes

Italy is set to tap the eurobond market for the first time since the Prodi government came to power and since Moody's, the US rating agency, said it was considering raising the sovereign's A1 credit rating.

1999, refinances a previous \$2bn FRN issue due 1998 which Italy called recently.

Other new issues expected this week include a DM200m four-year bond offering from Expo 2000, the company arranging the World Fair 2000 in Hanover.

The fixed-rate offering, which will be guaranteed half by the state of Lower Saxony and half by the German government, is likely to be priced to yield up to 10 basis points more than underlying German government paper.

Bank Austria is believed to have swapped the proceeds of the offering into fixed-rate D-markers at a sub-Libor interest rate.

Good response to NZ buy-backs

New Zealand's offer to buy back \$197.5m of loan stock has had a warm reception so far from the London market.

to buy back \$500m of US domestic notes, but the success of the Yankee buy-back is less assured.

Fund to invest \$100m in Russian debt market

A Hong Kong-based fund manager and an Australian bank are joining forces to launch a fund to invest in the Russian debt market.

Ordinary shares aim for capital appreciation and will offer a leveraged return.

NEW INTERNATIONAL BOND ISSUES

Table with columns: Amount, Coupon, Price, Maturity, Fees, Spread, Book-runner. Lists various international bond issues from US Dollars, Sterling, and Canadian Dollars.

INTERNATIONAL BONDS

Dealers expect Italy to launch a \$2bn offering of five-year floating-rate notes as early as today.

WORLD BOND PRICES

Table with columns: Country, Coupon, Maturity, Price, Yield, Week change, Month change. Lists benchmark government bonds for Australia, Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, Netherlands, Spain, Sweden, UK Gilts, and US Treasury.

BOND FUTURES AND OPTIONS

Table with columns: Instrument, Open, Settle, Change, High, Low, Est. vol, Open int. Lists futures and options for France, Germany, and UK Gilts.

UK GILTS PRICES

Table with columns: Instrument, Yield, Price, Change, High, Low. Lists various UK Gilts including Short, Intermediate, and Long term.

FT-ACTUARIES FIXED INTEREST INDICES

Table with columns: Index, Mon, Jun, Day's change, Fri, Accrued interest, Ytd adj. Lists various fixed interest indices.

FT FIXED INTEREST INDICES

Table with columns: Instrument, Jun 10, Jun 27, Jun 6, Jun 30, Jun 4, Yr ago, High, Low. Lists various fixed interest instruments.

FTASIA INTERNATIONAL BOND SERVICE

Table with columns: Issued, Bid, Offer, Chg, Yield, Spread, Bid, Offer, Chg, Yield. Lists various international bonds.

OTHER FIXED INTEREST

Table with columns: Instrument, Yield, Price, Change, High, Low. Lists various other fixed interest instruments.

Main table containing detailed bond market data, including various international bond issues, futures, options, and interest rates. Includes sub-sections for FT-Actuaries, FT Fixed Interest, FTASIA, and Other Fixed Interest.

CURRENCIES AND MONEY

MARKETS REPORT

Pound falls amid UK interest rate speculation

By Graham Bowley

The pound fell on the foreign exchanges yesterday as traders digested last week's surprise UK interest rate cut and speculated that rates might fall further.

Other major currencies had a quiet session as markets absorbed the implications of last week's drama triggered by the very strong US jobs figures.

The lira was largely unmoved by reports that Italy would start talks after next week's European Union summit in Florence with France and Germany on the lira rejoining the European exchange rate mechanism.

Sterling's trade weighted index finished lower at 85.8 from 86.2. Against the D-Mark, the pound closed at DM2.5252 from DM2.5257, while against the dollar it finished at \$1.5133 from \$1.5147.

The dollar finished in London at DM1.536 from DM1.5345.

Against the yen it closed at ¥109.085 from ¥109.05.

All eyes were on the pound again yesterday as sterling suffered a setback following its recovery on Friday.

Talk in the market again revolved around whether, or to what extent, last week's quarter point base rate cut to 5.75 per cent was politically motivated.

Favourable producer price numbers yesterday, which showed industry inflationary pressures eased further in May, provided some backing for the view that the cut may have been justified by economic circumstances. Analysts said the data reinforced the view that interest rates were set to remain low for a while.

which would exert downward pressure on the pound.

"The interest rate cut has taken some of the shine off the pound," according to Mr Ian Barnett, UK group chief economist at SGT in London.

"People are realising that interest rates are not going to be reversed before the election, and so along with political risk the pressures are still for sterling to weaken."

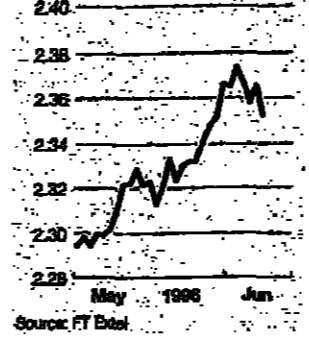
Mr Paul Maggery, senior currency strategist at Deutsche Morgan Grenfell in London, said that "even if you don't think the rate cut was politically motivated, the move was still negative for the pound" since it signalled that the authorities are "uncomfortable with a strong exchange rate".

Short sterling futures contracts, which fell sharply on Friday, recovered yesterday.

Mr Tony Norfield, UK treasury economist at ABN AMRO in London, pointed out that for the first time since autumn 1994 short sterling contracts

Sterling

Against the D-Mark (DM per £)



Source: FT Data

with the direction that the major currencies have taken over the past year.

Speaking at the annual meeting of the Bank for International Settlements in Basle, Mr Tietmeyer said "overall, exchange rates parties are better than a year ago" reflecting "the different economic situations among them".

He said the lira which had been undervalued was now "more adequately valued". However, analysts were quick to point out that Mr Tietmeyer did not rule out any further moves in currencies and that the corrections may not yet be complete.

Figures in the BIS annual report showed that the dollar's share in global official reserves has remained stable at about two thirds.

This view in the face of much received wisdom which suggested that many developed economies no longer wished to hold as large a proportion of

their reserves in dollars as they had done in the past.

The report showed that central bank intervention to support the dollar against the yen in 1995 boosted foreign exchange reserves at the fastest pace since 1997.

It also revealed that central banks and governments financed more than two thirds of the US current account deficit last year, underlining the extent of official intervention in support of the dollar in 1995.

Attention this week will be on the Bundesbank council meeting, with some expectation that the central bank might take a step towards laxer monetary policy by adopting a variable rate repo.

WORLD INTEREST RATES

Table of World Interest Rates showing rates for various countries (Belgium, France, Germany, etc.) across different terms (Overnight, One month, Three months, Six months, One year).

EURO CURRENCY INTEREST RATES

Table of Euro Currency Interest Rates showing rates for various Eurozone countries (Belgium, France, Germany, etc.) across different terms (Overnight, One month, Three months, Six months, One year).

POUND SPOT FORWARD AGAINST THE POUND

Table of Pound Spot Forward Against the Pound showing rates for various countries (Australia, Belgium, Denmark, etc.) across different terms (One month, Three months, Six months, One year).

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Table of Dollar Spot Forward Against the Dollar showing rates for various countries (Australia, Belgium, Denmark, etc.) across different terms (One month, Three months, Six months, One year).

CROSS RATES AND DERIVATIVES

Table of Cross Rates and Derivatives showing exchange rates and derivatives for various currencies (Belgium, Denmark, France, Germany, etc.).

LEGAL NOTICES

Multiple legal notices including: IN THE HIGH COURT OF JUSTICE, IN THE MATTER OF GETTY COMMUNICATIONS LIMITED, IN THE MATTER OF THE COMPANIES ACT 1985, IN THE MATTER OF THE COMPANIES ACT 1985, IN THE MATTER OF THE COMPANIES ACT 1985, IN THE MATTER OF THE COMPANIES ACT 1985.

THREE MONTH STERLING FUTURES (LFFE) £100,000 points of 100%

Table of Three Month Sterling Futures (LFFE) £100,000 points of 100% showing rates for various months (Jun, Sep, Dec).

THREE MONTH EURO DOLLAR FUTURES (EMM) \$1m points of 100%

Table of Three Month Euro Dollar Futures (EMM) \$1m points of 100% showing rates for various months (Jun, Sep, Dec).

UK INTEREST RATES

Table of UK Interest Rates showing rates for various terms (Overnight, One month, Three months, Six months, One year).

IRMS EURO CURRENCY UNIT RATES

Table of IRMS Euro Currency Unit Rates showing rates for various countries (Spain, Netherlands, Ireland, Belgium, Germany, etc.).

THREE MONTH STERLING FUTURES (LFFE) £500,000 points of 100%

Table of Three Month Sterling Futures (LFFE) £500,000 points of 100% showing rates for various months (Jun, Sep, Dec).

BASE LENDING RATES

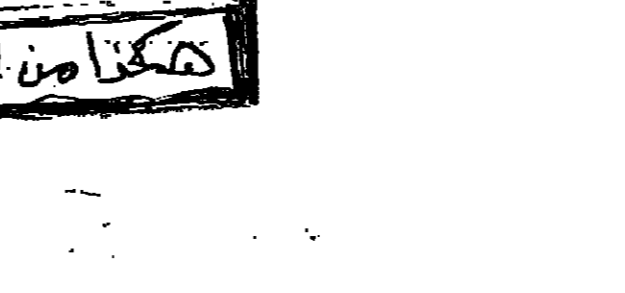
Table of Base Lending Rates showing rates for various banks (Adams & Company, Allied Trust Bank, etc.).

THREE MONTH EURO DOLLAR FUTURES (EMM) \$1m points of 100%

Table of Three Month Euro Dollar Futures (EMM) \$1m points of 100% showing rates for various months (Jun, Sep, Dec).

THREE MONTH EURO DOLLAR FUTURES (EMM) \$1m points of 100%

PROMOTE YOUR CORPORATE IDENTITY. MANHATTAN-WINDSOR. Quality Promotional Gifts. Cuff Links, Key Rings, Paperweights, Enamel Badges.



LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

Table listing various alcoholic beverage companies and their share prices.

BANKS, MERCHANT

Table listing banks and merchant companies and their share prices.

BANKS, RETAIL

Table listing retail banks and their share prices.

BREWERIES, PUBS & REST

Table listing breweries, pubs, and restaurants and their share prices.

BUILDING & CONSTRUCTION

Table listing building and construction companies and their share prices.

BUILDING MATS. & MERCHANTS

Table listing building materials and merchant companies and their share prices.

CHEMICALS

Table listing chemical companies and their share prices.

DISTRIBUTORS

Table listing distributor companies and their share prices.

DIVERSIFIED INDUSTRIALS

Table listing diversified industrial companies and their share prices.

ELECTRICITY

Table listing electricity companies and their share prices.

ELECTRONIC & ELECTRICAL EQPT

Table listing electronic and electrical equipment companies and their share prices.

ELECTRONIC & ELECTRICAL EQPT - Cont.

Continuation of electronic and electrical equipment companies and their share prices.

ELECTRONIC & ELECTRICAL EQPT - Cont.

Continuation of electronic and electrical equipment companies and their share prices.

ENGINEERING

Table listing engineering companies and their share prices.

ENGINEERING - Cont.

Continuation of engineering companies and their share prices.

ENGINEERING, VEHICLES

Table listing engineering and vehicle companies and their share prices.

EXTRACTIVE INDUSTRIES

Table listing extractive industries companies and their share prices.

EXTRACTIVE INDUSTRIES - Cont.

Continuation of extractive industries companies and their share prices.

EXTRACTIVE INDUSTRIES - Cont.

Continuation of extractive industries companies and their share prices.

FOOD PRODUCERS

Table listing food producer companies and their share prices.

FOOD PRODUCERS - Cont.

Continuation of food producer companies and their share prices.

FOOD PRODUCERS - Cont.

Continuation of food producer companies and their share prices.

FOOD PRODUCERS - Cont.

Continuation of food producer companies and their share prices.

FOOD PRODUCERS - Cont.

Continuation of food producer companies and their share prices.

HOUSEHOLD GOODS

Table listing household goods companies and their share prices.

INSURANCE

Table listing insurance companies and their share prices.

INVESTMENT TRUSTS

Table listing investment trusts and their share prices.

INVESTMENT TRUSTS - Cont.

Continuation of investment trusts and their share prices.

INVESTMENT TRUSTS - Cont.

Continuation of investment trusts and their share prices.

INVESTMENT TRUSTS - Cont.

Continuation of investment trusts and their share prices.

INV TRUSTS SPLIT CAPITAL

Table listing split capital investment trusts and their share prices.

Advertisement for MIRACL, featuring a logo of a hand holding a coin and text: 'In a word, MIRACL Working wonders in the world of contract hire and fleet management. 0800 269895 For contract hire and vehicle management we are the people. ACL A Contract Hire Group Company'.

INVESTMENT TRUSTS - Cont.

Continuation of investment trusts and their share prices.

INVESTMENT TRUSTS - Cont.

Continuation of investment trusts and their share prices.

INVESTMENT TRUSTS - Cont.

Continuation of investment trusts and their share prices.

INVESTMENT TRUSTS - Cont.

Continuation of investment trusts and their share prices.

INVESTMENT TRUSTS - Cont.

Continuation of investment trusts and their share prices.

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Continuation of investment trusts and their share prices.

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Continuation of investment trusts and their share prices.

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Continuation of investment trusts and their share prices.

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Continuation of investment trusts and their share prices.

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Continuation of investment trusts and their share prices.

INVESTMENT TRUSTS - Cont.

Continuation of investment trusts and their share prices.

INVESTMENT TRUSTS - Cont.

Continuation of investment trusts and their share prices.

INVESTMENT TRUSTS - Cont.

Continuation of investment trusts and their share prices.

LONDON SHARE SERVICE

NAV TRUSTS SPLIT CAPITAL - Cont.

Table listing NAV trusts split capital with columns for company name, price, and other financial data.

LEISURE & HOTELS - Cont.

Table listing Leisure & Hotels companies with columns for company name, price, and other financial data.

OTHER FINANCIAL - Cont.

Table listing Other Financial companies with columns for company name, price, and other financial data.

PROPERTY - Cont.

Table listing Property companies with columns for company name, price, and other financial data.

SUPPORT SERVICES - Cont.

Table listing Support Services companies with columns for company name, price, and other financial data.

AM - Cont.

Table listing AM companies with columns for company name, price, and other financial data.

OTHER INVESTMENT TRUSTS

Table listing Other Investment Trusts with columns for company name, price, and other financial data.

OIL EXPLORATION & PRODUCTION

Table listing Oil Exploration & Production companies with columns for company name, price, and other financial data.

INVESTMENT COMPANIES

Table listing Investment Companies with columns for company name, price, and other financial data.

OIL, INTEGRATED

Table listing Oil, Integrated companies with columns for company name, price, and other financial data.

LEISURE & HOTELS

Table listing Leisure & Hotels companies with columns for company name, price, and other financial data.

OTHER FINANCIAL

Table listing Other Financial companies with columns for company name, price, and other financial data.

PAPER, PACKAGING & PRINTING

Table listing Paper, Packaging & Printing companies with columns for company name, price, and other financial data.

PHARMACEUTICALS

Table listing Pharmaceuticals companies with columns for company name, price, and other financial data.

PHARMACEUTICALS - Cont.

Table listing Pharmaceuticals companies (continued) with columns for company name, price, and other financial data.

RETAILERS, FOOD

Table listing Retailers, Food companies with columns for company name, price, and other financial data.

RETAILERS, GENERAL

Table listing Retailers, General companies with columns for company name, price, and other financial data.

RETAILERS, GENERAL - Cont.

Table listing Retailers, General companies (continued) with columns for company name, price, and other financial data.

TELECOMMUNICATIONS

Table listing Telecommunications companies with columns for company name, price, and other financial data.

TEXTILES & APPAREL

Table listing Textiles & Apparel companies with columns for company name, price, and other financial data.

TOBACCO

Table listing Tobacco companies with columns for company name, price, and other financial data.

TRANSPORT

Table listing Transport companies with columns for company name, price, and other financial data.

WATER

Table listing Water companies with columns for company name, price, and other financial data.

AM

Table listing AM companies with columns for company name, price, and other financial data.

AMERICANS

Table listing American companies with columns for company name, price, and other financial data.

CANADIANS

Table listing Canadian companies with columns for company name, price, and other financial data.

SOUTH AFRICANS

Table listing South African companies with columns for company name, price, and other financial data.

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Index, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries.

Quoting this price is shown in pence unless otherwise stated. Highs and lows are based on intra-day trading over a rolling 52 week period.

Where shares are denominated in currencies other than sterling, this is indicated after the price.

Currency relating to dividend rates appear in the notes column daily as a guide to yields and P/E ratios. Dividends and dividend covers are published in the notes column.

Market capitalisation shown is calculated separately for each line of stock quoted.

Exchange used in calculations are based on Bank of International Settlements.

Shareholdings are based on latest annual reports and accounts and other sources, as updated to latest figures.

Yields are based on mid-price, six pence, adjusted for a dividend for credit of 20 per cent and shown for value of dividend distribution and rights.

Selected list of stock values (BV) are shown for investment trusts. In some cases, these will be the average of the BV for each year for the period 1991 to the current listing year price. The BV has been converted into pence at par value, unless otherwise stated and rounded to nearest 10 pence.

Includes the most actively traded stocks. This includes FT 1000 shares.

Shareholdings and prices are published continuously through the FT Cityline service.

Highs and lows shown have been adjusted to allow for capital changes.

Prices are shown in pence unless otherwise stated.

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Rockwell supplies virtually every European car manufacturer with automotive components and systems



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FT MANAGED FUNDS SERVICE

FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4376 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Table listing Bermuda funds including details like fund name, manager, and performance metrics.

BERMUDA (REGULATED)**

Table listing regulated Bermuda funds with columns for fund name, manager, and performance.

GUERNSEY (SIB RECOGNISED)

Table listing Guernsey funds with columns for fund name, manager, and performance.

GUERNSEY (REGULATED)**

Table listing regulated Guernsey funds with columns for fund name, manager, and performance.

IRELAND (SIB RECOGNISED)

Table listing Ireland funds with columns for fund name, manager, and performance.

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ISLE OF MAN (SIB RECOGNISED)

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LUXEMBOURG (SIB RECOGNISED)

Table listing Luxembourg funds with columns for fund name, manager, and performance.

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FT MANAGED FUNDS SERVICE

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Main table containing various fund listings with columns for fund names, prices, and performance metrics. Includes sections for 'OTHER OFFSHORE FUNDS' and 'OFFSHORE INSURANCES'.

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LONDON STOCK EXCHANGE

MARKET REPORT

Producer price news helps UK equities rally

By Steve Thompson, UK Stock Market Editor

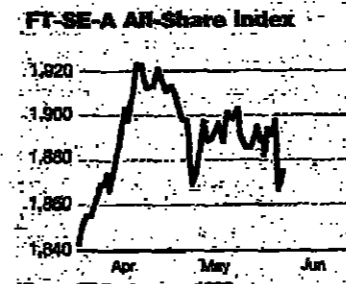
Better than expected UK producer price data and Wall Street's astonishing recovery last Friday, when it closed 29 points up after an initial 80-point fall, saw London's equity market regain its composure and make strong progress yesterday.

expected, that triggered the big initial slide on Wall Street and across European stock markets. The leap in the non-farm payroll ignited fears that the Federal Reserve will increase US interest rates, to stifle inflation, at the next Federal Open Market Committee meeting on July 2.

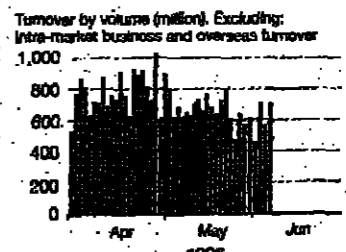
US and Europe during the period. The real disappointment in the market yesterday came with the dismal level of activity. Turnover at the 6pm calculation came out at a worryingly low 518.9m shares, the poorest daily turnover level for many weeks.

That number is expected to reflect a level of customer activity closer to 1bn than the near 2bn numbers of recent sessions. At the close of business, the FT-SE 100 index was 22.0 higher at 3,728.8. There was again much less conviction about the second liners, represented by the FT-SE Mid 250 index, which struggled to make any real progress for much of the session.

Clark, chancellor of the exchequer, and Mr Eddie George, governor of the Bank of England, addressing the assembly at the Mansion House. The day's big story was the news that Standard Life, the Scottish mutual, is to sell the majority of its 32.5 per cent stake in Bank of Scotland via a secondary offering, in the form of a book-building exercise.



Equity shares traded



Indices and ratios

Table with 2 columns: Index Name and Value. Includes FT-SE 100 (3728.8), FT-SE Mid 250 (4452.9), FT-SE All-Share (1873.3), FT-SE-A All-Share (1674.87), FT-SE-A All-Share yield (3.84).

Best performing sectors

Table with 2 columns: Sector and Change. Includes Tobacco (+3.0), Gas Distribution (+1.5), Leisure & Hotels (+1.2), Oil Exploration & Prod (+1.1), OR Integrated (+1.0).

Worst performing sectors

Table with 2 columns: Sector and Change. Includes Water (-1.5), Electricity (-0.8), Other Financial (-0.5), Electronics & Elect Equip (-0.1), Engineering: Vehicles (-0.0).

Bank bid premium fades

Bank of Scotland was backmarker in the Footsie as Standard Life announced that it would sell its 30 per cent stake in the bank in the market. There was talk around the market, however, that the stake may yet be placed in the market if Standard gets a good offer for the stock. One rumour yesterday was that the shares would be placed at 235p after Bank of Scotland's annual meeting scheduled for today.

positive note from Merrill Lynch. This places a value of £14 a share on BAE, taking a bullish line on notional flotation values for the Airbus consortium, in which BAE has a 30 per cent interest. The shares jumped a further 19 to 565p. Most City engineering teams put a value of between £10 and £12 on BAE's core businesses.

some concerns that it is about to make another US purchase. BSKYB rose 6% to 437p after securing the right to broadcast all rugby union games played at Twickenham, in an £87.5m five-year deal. Speculation that W.H. Smith will dispose of its stake in Do It All to Boots, with which it jointly owns the DIY chain, helped lift the newsgang by 21 to 481p.

move marks a renewed attempt to break price-fixing by drug manufacturers. Asda hardened to 1187p. Shell Transport climbed 13% to 827p with help from news of its involvement in a new Dow Chemical polypropylene venture. It was also supported by currency shifts.

results. ABB Amro Hoare Govett trimmed by £1.5m to 520p for this year. The second round of brewing and restaurant companies was active, led by Regent Inns, which jumped 9 to 248p following its five-for-one share split and the announcement that it had taken a 5.5p per cent stake in Surrey Free Inns, the AIM stock. Sturges rose 2% to 370p.

FUTURES AND OPTIONS

Table with 4 columns: Index Name, Open, Settle, High, Low. Includes FT-SE 100 INDEX (3728.8), FT-SE MID 250 INDEX (4452.9), FT-SE 100 INDEX OPTION (3728.8), EURO STYLE FT-SE 100 INDEX OPTION (3728.8).

MARKET REPORTERS

Peter John, John Kibazo, Jeffrey Brown, Lisa Wood.

London market data

Table with 2 columns: Metric and Value. Includes FT-SE 100 (3728.8), FT-SE Mid 250 (4452.9), FT-SE All-Share (1873.3), FT-SE-A All-Share (1674.87).

FT-SE 100 EQUITY INDICES

Table with 2 columns: Index Name and Value. Includes Ordinary Share (3728.8), Ord. ch. yield (4.01), P/E ratio (16.08), P/E ratio net (15.87).

FT-SE ACTUARIES SHARE INDICES

Table with 2 columns: Index Name and Value. Includes FT-SE 100 (3728.8), FT-SE Mid 250 (4452.9), FT-SE All-Share (1873.3).

FT-SE ACTUARIES ALL-SHARE

Table with 2 columns: Index Name and Value. Includes FT-SE 100 (3728.8), FT-SE Mid 250 (4452.9), FT-SE All-Share (1873.3).

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TRADING VOLUME

Table with 2 columns: Index Name and Volume. Includes FT-SE 100 (3728.8), FT-SE Mid 250 (4452.9), FT-SE All-Share (1873.3).

Advertisement for Suez and Banque Indosuez. Text: 'This announcement appears as a matter of record only... Compagnie de Suez and Banque Indosuez are pleased to announce the formation of SUEZ ASIA EQUITY ASSOCIATES S.C.A. a US \$ 200 million Asian Development Capital fund...'

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Advertisement for FUTURES AND OPTIONS TRADING. Text: 'FUTURES AND OPTIONS TRADING... Clearing and Execution Service 24 hrs... Contact: Daniela Deana...'

Advertisement for MARGINED FOREX. Text: 'MARGINED FOREX... Discretionary Commissions... 'The rate we trade is the rate you get...'

Advertisement for KNIGHT-RIDDER'S FUTURES MARKET DATA. Text: 'KNIGHT-RIDDER'S FUTURES MARKET DATA FROM \$270... A full page of Daily Market Data...'

Advertisement for WANT TO KNOW A SECRET?. Text: 'WANT TO KNOW A SECRET? The L.D.S. Gann Seminar will show you how the markets REALLY work...'

Advertisement for FUTURES - TAX FREE. Text: 'FUTURES - TAX FREE... 0171 896 0011...'

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Advertisement for SHARE SENTRY. Text: 'SHARE SENTRY... REAL TIME MOBILE FINANCIAL DATA...'

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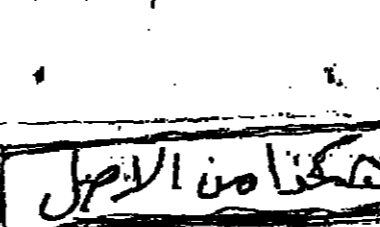
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NEW YORK STOCK EXCHANGE PRICES

Main table of stock prices with columns for stock symbols, prices, and volume. Includes sub-sections for 'Race to Market' and 'Continued on next page'.

Race to Market advertisement for Hewlett-Packard, featuring the text 'If the business decisions are yours, the computer system should be ours.' and the HP logo.

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NYSE PRICES

Continued from previous page. Table listing NYSE stock prices with columns for stock name, price, change, and volume.

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Advertisement for 'Have your FT hand delivered in Warsaw' featuring the 'Warsaw' logo and contact information for Financial Times delivery services.

NASDAQ NATIONAL MARKET

Table listing NASDAQ National Market stock prices with columns for stock name, price, change, and volume.

Vertical advertisement on the left margin with text including 'buy banks', 'Mexican state', 'warns of loss', 'ives Mediaset', and 'ON AG'.

AMERICA

Dow weak as bonds continue to lose ground

Wall Street

US share prices were mostly lower in quiet mid-session trading yesterday as the bond market continued to lose ground in the wake of Friday's stronger than expected figures on May employment, writes Lisa Branstetter in New York.

At 1 pm, the Dow Jones Industrial Average was 15.62 weaker at 5,681.69. The Standard & Poor's 500 lost 1.44 at 671.87 and the American Stock Exchange composite shed 1.75 to 597.56.

Leading biotech shares were featured by gains in Cephalon and Chiron. On Friday a US Food and Drug Administration panel recommended approval of the companies' drug to treat atrophic lateral sclerosis, known as Lou Gehrig's disease.

Santiago moves ahead

Santiago held on to early gains as prices were supported by rises in Chilean American Depositary Receipts, and the weighted IPSA index was 0.97 higher at 98.31 at mid-session.

Table with columns: MARKET IN PERSPECTIVE, % change in local currency, % change in US \$, % change in £. Rows include Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Spain, Sweden, Switzerland, UK, EUROPE, Australia, Hong Kong, Japan, Malaysia, New Zealand, Singapore, Canada, USA, Mexico, South Africa, WORLD INDEX.

EUROPE

Bourses recoup Friday's losses in muted activity

Bourses were relieved after Wall Street's intra-day recovery last Friday, but there was a lack of enthusiasm on the buy side. PARIS rebounded from Friday's 1.5 per cent drop, the CAC 40 index rallying 18.85 to 2,120.84, but turnover was thin at FF3.2bn, little more than half of Friday's FF6.3bn.

Schneider, however, dealt in heavy volume, with nearly 1m shares in the electrical equipment maker traded as it rose FF6.60 to FF247.80. There was talk of a persistent foreign buyer.

Carrefour, the hypermarket group, rebounded FF7.72 to FF2.77 after profit-taking last week. Sodeexo, the catering company, climbed FF108, or 5.3 per cent, to FF2,148. Dealers here said that a long-standing sell order had been completed.

FRANKFURT made some attempt to reflect the recovery in the dollar and the better feeling about auto industry prospects. Volkswagen climbed DM10.10 to DM564.50 as the Dax index rose 16.93 to an historically 2,652.96.

However, turnover stayed low at DM6.7bn and, once again, the share price action came in concept stocks. In retailing, Kaufhof, with shareholders demanding better terms for the Asko/Mitros merger, rose another DM16.05 to DM561.55.

ASIA PACIFIC

Seoul takes profits, off 1.2% on new telecom licences

Telecom-related profit-taking pulled SEOUL lower after the results of tenders for new telecommunications licences were announced. The composite index fell 11.15 to 822.17.

LG Information lost Won5,500 to Won98,000, although a consortium of three investors won one of three licences to operate a personal communications network.

Table with columns: MARKET IN PERSPECTIVE, % change in local currency, % change in US \$, % change in £. Rows include Australia, Hong Kong, Japan, Malaysia, New Zealand, Singapore, Canada, USA, Mexico, South Africa, WORLD INDEX.

FT-SE Actuaries Share Indices

Table with columns: Jun 10, Jun 7, Jun 6, Jun 4, Jun 3. Rows include FT-SE 100, FT-SE 250, FT-SE 500.

MADRID closed at new highs, underpinned by Friday's government measures to boost economic growth. The general index rose 2.92 to 365.26, although turnover dropped from Ptas5bn to Ptas3.2bn.

TELEFONICA rose Ptas40 to Ptas2,400 after measures announced to open basic telephone to another domestic operator, the market believing that the government would not admit full foreign competition until after 1998.

MILAN was enlivened by the listing of Mediaset, Mr Silvio Berlusconi's television and advertising group. Comparisons were immediately drawn with the flotation

increased by just 7.4 per cent. ZURICH recouped some of Friday's losses but the mood was hesitant awaiting this week's US prices data.

Among a firm showing by the financial sector, SBC rose SFr4 to SFr235.7 and Swiss Re was SFr17 ahead at SFr1,333.

STOCKHOLM saw particular strength in Ericsson and Volvo. The weighted index closed 36.13 lower at 6,073.09, some 60 points off its intra-day high.

Roundup

Profits were taken after recent gains in KARACHI's blue chips, and ahead of the opening of the new account today. The KSR 100 index fell 22.14, or 1.3 per cent, to 1,726.38.

PTCL lost PRs0.65 to PRs44.25 and Hubco PRs0.95 to PRs36.35, although Pakistan State Oil capped losses late last week, and on Sunday, with a token rise of PRs2 to PRs403.

HONG KONG registered moderate losses, largely ignoring Friday's rout of Hong Kong stocks, traded in London, which fell in a knee-jerk reaction to the early sell-off on Wall Street.

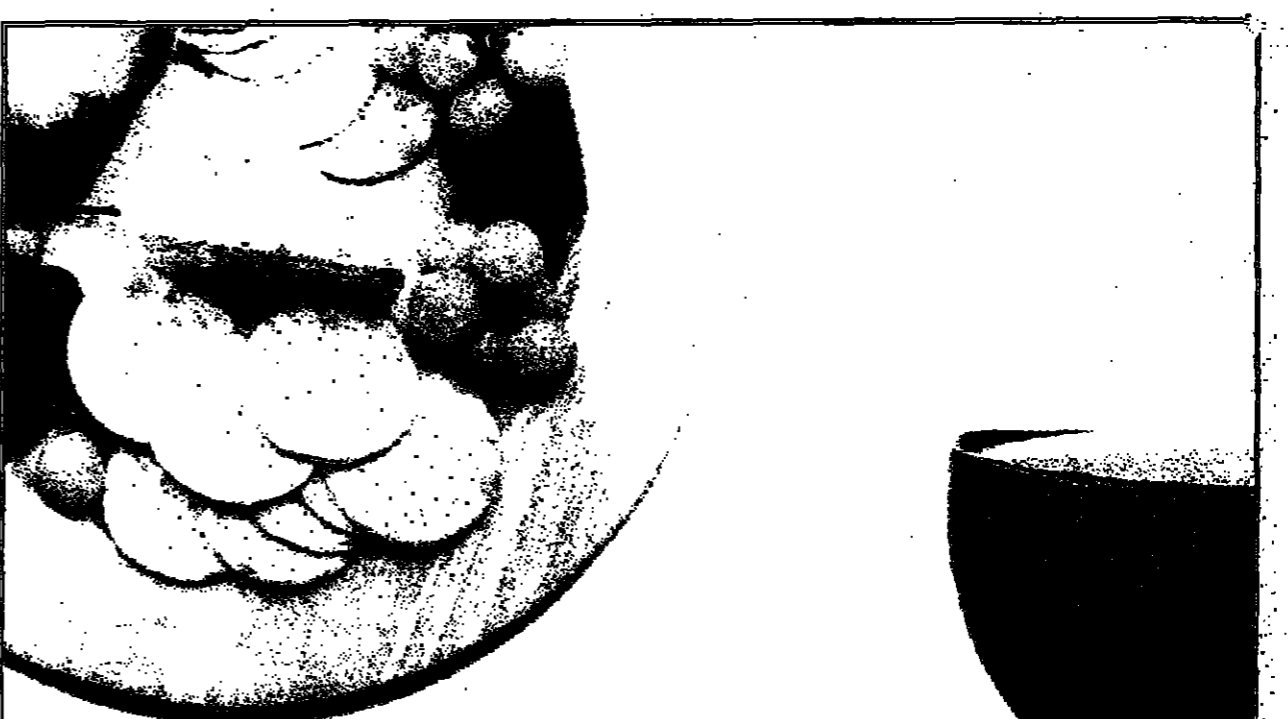
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